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THE
CANADIAN CHARTERED ACCOUNTANT

VOLUME VIII.

1918-1919

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THE CANADIAN CHARTERED ACCOUNTANT.

VOLUME VIII.—1918-19.

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Dominion Association of Chartered Accountants

Incorporated by Special Act of Parliament, 2nd Ed. VII. Chap. 58, 1902.

MONTREAL, June 18th, 1918.

To the Members of
The Dominion Association of Chartered Accountants:

Gentlemen,—The approaching Annual Convention to be held in Montreal, from the 18th to 20th September, 1918, will be one of great interest to the members of the Association.

Mr. R. W. Breadner, Commissioner of Taxation, Ottawa, has agreed to attend and discuss different problems that have arisen in connection with the Business Profits War Tax and the Income Tax, and will also deal with any questions relating thereto that may be submitted by the members in attendance. Mr. Harvey S. Chase, C.P.A., of Boston, Mass., the leading American expert in Municipal Accounting, is to prepare and read a paper upon this important question. Mr. Thomas Mulvey, K.C., Under-Secretary of State of Canada, is to address the Convention on Joint Stock Company Law, with special reference to the Bonanza Case.

I would again desire to impress on every member of the Association the importance of their being in attendance, as the information to be obtained from these leaders in their respective professions will be of the highest value in the professional life of all who may have the privilege of securing same.

In addition to the business meetings, arrangements are being made for the social entertainment of the members and of any ladies accompanying them.

Be sure and note the dates, and let nothing interfere with your being in attendance. Yours truly,

JOHN HYDE, President.

THE CANADIAN CHARTERED ACCOUNTANT

OFFICIAL ORGAN OF THE

DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

VOL. VIII. JULY, 1918 No. 1

DOMINION ASSOCIATION, ANNUAL MEETING AT MONTREAL, SEPT. 18th, 19th and 20th, 1918.

Provisional Programme.

Headquarters—Ritz-Carlton Hotel, 580 Sherbrooke Street West, Montreal, P.Q.

Wednesday, September 18th.

9 a.m. to 10 a.m.—Meeting of Council.

10 a.m. to 10.30 a.m.—Official reception.

10.30 a.m. to 11.30 a.m.—President's address, followed by appointment of committees.

11.30 a.m. to 12.45 p.m.—Paper by Mr. R. W. Breadner, Commissioner of Taxation for the Dominion.

12.45 p.m.—Convention will meet at Ritz-Carlton Hotel to drive by automobiles to the Beaconsfield Golf Club, where luncheon will be served on arrival. The directors of the Beaconsfield Golf Club have kindly granted the privileges of the greens to those desirous of playing golf. An invitation is extended to the remaining members to an automobile drive to Senneville, returning to the Beaconsfield Golf Club for afternoon tea at 5 p.m.

7 p.m.—Drive by automobile to a country club.

7.30 p.m.—Annual banquet at country club, at which certain distinguished members of the Provincial Government and of the profession will speak. The automobiles will wait to drive the attending members back to the city.

Thursday, September 19th.

10 a.m. to 1 p.m.—Business and address by Mr. Harvey S. Chase, C.P.A., on "Municipal Accounts."

1 p.m. to 2 p.m.—President's luncheon to members of the Dominion Council.

2.30 p.m.—Paper by Mr. Thomas Mulvey, K.C., on "The Companies' Act," with particular reference to the Bonanza case.

4.30 p.m.—Reports of constituent societies and general business.

5.45 p.m.—Proceed on board the Quebec boat for Quebec.

7.30 p.m.—Dinner on board the Quebec boat, and afterwards remaining business, if any.

Friday, September 20th.

8 a.m.—Breakfast at the Chateau Frontenac, Quebec.

1 p.m.—Luncheon at the Chateau Frontenac. The whole of the day at Quebec will be devoted to sightseeing. All facilities will be provided to attending members to visit the various points of interest in and around Quebec.

5.45 p.m.—The members will re-embark on the boat to return to Montreal

7 p.m.—Dinner on board boat. Friday evening a musical programme will be provided.

Saturday, September 21st.

7.30 a.m.—Boat arrives in Montreal. Breakfast can be had on board boat or not, as members choose.

A nominal fee of $10 per member will be charged for the Quebec trip.

THE INCOME WAR TAX ACT, 1917, AMENDMENTS AND RULINGS.

By R. Easton Burns, C.A.

AMENDMENT 1, AMENDING SECTION 2.

1. (1) Paragraph (*e*) of section two of *The Income Tax Act, 1917*, chapter twenty-eight of the statutes of 1917, is repealed and the following is substituted therefor:—

Definitions.

> "(*e*) "supertax" means the taxes authorized by paragraphs (*b*) to (*m*), both inclusive, of section four of this Act";

(2) Section two of the said Act is amended by adding thereto the following paragraphs:—

> "(*h*) "surtax" means the taxes authorized by paragraphs (*n*) to (*q*), both inclusive, of section four of this Act;
>
> "(*i*) "dependent child" means a child under twenty-one years of age and dependent on his parent for support, or over twenty-one years of age and dependent on his parent for support on account of physical or mental incapacity."

Section 4 having been amended to impose a graded tax on incomes exceeding fifty thousand dollars, ranging from fifteen per cent. to fifty per cent., instead of a fixed percentage of twenty-five per cent. on all incomes exceeding one hundred thousand dollars, the definition of "supertax" is broadened to include the additional paragraphs.

Two definitions are added: "Surtax," meaning an additional percentage of from five to thirty-five per cent applied on the computed tax of persons with incomes exceeding $6,000; and "dependent child," a term used in paragraph (*a*), subsection 1 of Section 4, but not previously defined, and now used in paragraph (*b*) of Section 3 as amended, to provide an exemption of two hundred dollars. It must be noted, however, that in Section 3 the age is specified as "under sixteen."

* * * * * * *

AMENDMENT 2, AMENDING SECTION 3.

Par. relating to payments at source.

2. **(1)** Paragraph (*b*) of section three of the said Act is repealed and the following is substituted therefor:—

"(*b*) two hundred dollars for each child under sixteen years of age who is dependent upon the taxpayer for support."

Par. (d) of s. 3 amended.

(2) Paragraph (*d*) of the said section three is amended by striking out the words "or from the net earnings" in the third and fourth lines thereof.

Paragraph (*b*) provided that income the tax upon which was paid at the source should be exempt. Section 6 provided for the payment of income at the source; that is, by trustees. As Section 6 is repealed entirely, the exemption is abolished. For the old paragraph (*b*) is substituted the provision for exemption, to the extent of $200 each, for children under sixteen dependent upon the taxpayer for support. The paragraph does not say "dependent on his parent" and, as the age is not in accordance with the definition of a dependent child in amendment 1, it might be claiming that any relative adopting the children of indigent parents should secure exemption.

Paragraph (*d*) of Section 3 provided that the taxpayer should be credited with "dividends on the stocks or from the net earnings of any company or other person which is taxable upon its income under this Act." It might be held that this amendment excludes bonuses from the operation of the exemption clauses, or that profits distributed in any other way than by declaration of dividends are taxable twice, once against the company as profits and once against the recipient as income.

A departmental ruling should be asked for in cases affected by this amendment.

* * * * * * *

AMENDMENT 3, AMENDING SECTION 4.

3. Subsections one and two of section four of the said Act are repealed and the following are substituted therefor:—

Income tax.

"**4.** (1) There shall be assessed, levied and paid, upon the income during the preceding year of every person residing or ordinarily resident in Canada or employed in Canada or carrying on any business in Canada, the following taxes:—

(*a*) two per centum upon all income exceeding one thousand dollars but not exceeding fifteen hundred dollars in the case of unmarried persons and widows or widowers without dependent children, and exceeding two thousand dollars but not exceeding three thousand dollars in the case of all other persons; four per centum upon all income exceeding fifteen hundred dollars in the case of unmarried persons and widows or widowers without dependent children, and exceeding three thousand dollars in the case of all other persons.

and in addition thereto the following supertax:— Supertax.

(*b*) two per centum upon the amount by which the income exceeds six thousand dollars and does not exceed ten thousand dollars; and

(*c*) five per centum upon the amount by which the income exceeds ten thousand dollars and does not exceed twenty thousand dollars; and,

(*d*) eight per centum of the amount by which the income exceeds twenty thousand dollars and does not exceed thirty thousand dollars; and

(*e*) ten per centum of the amount by which the income exceeds thirty thousand dollars and does not exceed fifty thousand dollars; and

(*f*) fifteen per centum of the amount by which the income exceeds fifty thousand dollars and does not exceed seventy-five thousand dollars; and

(*g*) twenty per centum of the amount by which the income exceeds seventy-five thousand dollars and does not exceed one hundred thousand dollars; and

(*h*) twenty-five per centum of the amount by which the income exceeds one hundred thousand dollars and does not exceed two hundred thousand dollars; and

(*i*) thirty per centum of the amount by which the income exceeds two hundred thousand dollars and does not exceed four hundred thousand dollars; and

(*j*) thirty-five per centum of the amount by which the income exceeds four hundred thousand dollars and does not exceed six hundred thousand dollars; and

(*k*) forty per centum of the amount by which the income exceeds six hundred thousand dollars and does not exceed eight hundred thousand dollars; and

(*l*) forty-five per centum of the amount by which the income exceeds eight hundred thousand dollars and does not exceed one million dollars; and

(*m*) fifty per centum of the amount by which the income exceeds one million dollars;

and in addition thereto the following surtax:— Surtax.

(*n*) upon income in excess of six thousand dollars but not exceeding ten thousand dollars, five per cent. of the normal tax and supertax payable thereon;

(*o*) upon income in excess of ten thousand dollars but not exceeding one hundred thousand dollars, ten per centum of the normal tax and supertax payable thereon;

(*p*) upon income exceeding one hundred thousand dollars but not exceeding two hundred thousand dollars, fifteen per centum of the normal tax and supertax payable thereon;

(*q*) upon income exceeding two hundred thousand dollars, thirty-five per centum of the normal and supertax payable thereon.

Corporation income tax.

"(2) Corporations and joint stock companies, no matter how created or organized, shall pay six per centum upon income exceeding three thousand dollars, but shall not be liable to pay the supertax or surtax; and the Minister may permit any corporation of joint stock company the fiscal year of which is not the calendar year, to make a return and to have the tax payable by it computed upon its income for the twelve months ending with its last fiscal year preceding the date of assessment.

Subsections one and two define the extent of the normal tax, the supertax and, as amended, the surtax. In subsection 1 there is now included the income of every person "employed in Canada." This would include those earning an income in Canada but having their domicile in another country.

Paragraph (*a*) should be carefully studied as it applies to every taxpayer and includes all incomes exceeding one thousand dollars in the case of unmarried persons or widows or widowers without dependent children, and exceeding two thousand dollars in the case of all other persons. For the first of these two classes of taxpayers the normal tax will now be two per cent. on incomes from $1,000 to $1,500 and four per cent. on the amount exceeding $1,500. For the second class the two per cent. tax applies to incomes between $2,000 and $3,000 and the four per cent. tax above $3,000. Thus, a married man with an income of $4,000 would pay two per cent. on the first thousand above $2,000 and four per cent. on the balance, or sixty dollars in all.

The changes in the supertax do not affect incomes of seventy-five thousand dollars or under—on incomes of larger amount there is a graded tax, up to fifty per cent., imposed on incomes of over a million dollars.

The surtax is a new feature, and imposes a tax upon the two other taxes. It is not very clear to the ordinary individual why the additional taxation is secured in this way instead of by an increase in the supertax rate, and to the taxpayer who feels that he is already being burdened with an onerous demand the small amount tacked on at the end of the computation will be much like the traditional straw on the camel's back.

The tax on corporations has been raised to six per cent. instead of four per cent. In view of the lowering of the minimum capital under the Business Profits War Tax Act, 1916, to $25,000 this increase will not affect many companies, as most of them will come under the operation of the 1916 Act. It might be claimed, however, by some companies with a capital of less than $25,000 or some companies not making seven per cent. on the employed capital and therefore exempt from the Business Profits Tax, that the distinction between companies and individuals or partnerships works a hardship inasmuch as the individual or partnership only pays four per cent.

* * * * * * *

AMENDMENT 4, AMENDING SECTION 5.

4. Section five of the said Act is amended by adding thereto the following paragraph:—

Exemptions from tax.

> "(*k*) the income of incorporated companies whose business and assets are carried on and situate entirely outside of Canada."

This is an additional exemption and would apply to a company incorporated in Canada but not employing any capital in this country.

* * * * * * *

AMENDMENT 5, REPEALING SECTION 6.

5. Section six of the said Act is repealed.

Payment of tax at source.

The provisions respecting the collection of income at the source are entirely done away with, the Government evidently preferring to deal directly with the taxpayer rather than with the trustee. The next amendment, however, provides that a return must be made by trustees of income paid by them.

* * * * * * *

AMENDMENT 6, AMENDING SECTION 7.

6. Subsection four of section seven of the said Act is amended by inserting after the word members in the sixth line thereof the following:—"and all persons in whatever

Returns by agents, etc.

> capacity acting, having the control, receipt, disposal or payment of fixed or determinable annual or periodical gains, profits or income of any taxpayer, shall make and render a separate and distinct return to the Minister of such gains, profits or income, containing the name and address of each taxpayer."

Section 7 deals entirely with returns, and defines the duties of individuals and corporations in making their own returns, as well as in making returns of the dividends, bonuses, etc., to shareholders and of salaries paid to employees. Section 6, now repealed, provided for returns from trustees. As amended, Section 7 now includes trustees in those liable to file returns. It has been found necessary to make a regulation in this connection, which will be found at the end of this article. The provision that trustees must make a return of income paid to "Taxpayers" was ambiguous as a trustee could not determine whether an individual was a taxpayer or not.

Regulations.

Under Section 22 the Minister is given very wide powers in making "any regulations deemed necessary for carrying this Act into effect." In accordance with this section, and in answer to a great many questions on specific points, the Department has prepared some rulings, but they have not been published at date of writing this article. It is understood that the Department intends making them public, and it is also the intention to issue a primer, based on one circulated by the United States Treasury Board, giving instructions to taxpayers in the form of questions and answers.

Perhaps the most interesting of the regulations refers to dividends, and deals with the important question as to whether dividends paid in 1917 are to be classed as 1917 income. The text of the regulation follows:—

"All dividends declared for accounting periods ending after 31st December 1916, should be classed as income of the year in which they are paid.

"Dividends declared for accounting periods ended on or prior to the 31st December, 1916, even if paid in 1917, will not be classed as 1917 income. Dividends declared exclusively from a surplus or accumulated profits on hand prior to the commencement of the 1917 accounting period should not be classed as income of the 1917 taxation period. No dividend can be divided to apply a portion thereof to 1916 and another portion to 1917 periods.

"All dividends paid by a corporation are deemed to be paid out of earnings of a corporation for the last accounting period preceding the declaration of the dividend in so far as these earnings will extend to the payment of dividends.

"Stock dividends stand in the same position as cash dividends for the purpose of the Income War Tax Act, 1917."

The fact that the Act is retroactive to January 1st, 1917, will mean that the Government will derive a larger income than would have been the case if companies, knowing conditions, had earmarked the dividends paid during the first six months of 1917 as being "exclusively from surplus held prior to the commencement of the 1917 accounting period," when the surplus was large enough to stand the test. Again, there would seem to be an inequality as between a company and an individual, inasmuch as the latter is free to withdraw his accumulated capital and use it as he sees fit without paying a tax, while a shareholder, who quite properly regarded the surplus as capital, reflected in the appreciation of the market value of his shares, must pay a tax on the withdrawal of that capital unless it was specifically declared to be surplus when distributed.

As to stock dividends, it is hard to find any justification for a tax unless it can be clearly shown that the profit was earned since January 1st, 1917. The issuing of extra certificates cannot, in itself, increase the wealth of a shareholder, but merely gives him two pieces of paper, representing an equity for which he previously held one piece.

* * * * * * *

There is a regulation dealing with the period covered by the 1917 tax in cases where the fiscal year of a company does not end on December 31st. It reads: "The return of corporations and joint stock companies whose accounting periods end between 1st January and 30th June, 1918, should cover the accounting period ending in 1918. Those whose accounting periods ended between 1st July and 31st December, 1917, should cover the period ended in 1917.

"The Income Tax return of all individuals must be made for the period of the calendar year."

Subsection 2 of Section 4 permits the Minister to accept a return and base the tax on the basis of "the twelve months ending with its last fiscal year preceding the date of assessment." The date of assessment is defined in Section 10 as "on or before the thirtieth day of April, or on or before such other date as he may in any case or cases prescribe."

The ruling has not been given publicity, and a great many returns have been filed based on fiscal years ending in May and June, 1917. If the company has to pay under the Business Profits War Tax Act, 1916, it will make no difference, but there may be cases where the profits were not seven per cent. on the capital, and were greater in the 1916-1917 period than in the 1917-1918 period. In such cases it would be well to file a new return or ask for a rebate.

* * * * * * *

Another regulation deals with partnership profits. The text of the regulation reads: "Members of partnerships and proprietors of businesses whose fiscal periods are other than the calendar year should include in their individual returns of income their respective share in partnership profits, whether distributed or not, ascertained at the end of the fiscal year falling within the calendar year for which the individual return is being rendered. The income of a partner is held to accrue to the individual partner at the time his distributive share is determined, *i.e.*, at the end of an accounting period."

If construed literally, this regulation would mean that an individual closing his books on January 10th, 1917 (as far as his business was concerned) must include in his return for 1917 the total profits of a fiscal year almost entirely applying to the antetax period. If his capital had been invested in a joint stock company paying quarterly dividends he would certainly have escaped the tax on three dividend payments. Knowing the condition of his business, he may have drawn on his profits in 1916, but that would not seem to help him when computing the tax if this ruling is applied.

* * * * * * *

It is understood that the Department intends to assess primarily under the Income Tax Act and then under the Business Profits War Tax Act, crediting on the latter any payments made under the former assessment.

Regarding Bad Debts.

The following regulation will be of interest: "Where it is the accounting practice of a company to set aside a reserve for bad debts this annual provision will be allowed as a deduction from income for taxation purposes if it is, in the opinion of the Department, reasonable in amount. This reserve must, of course, be carried forward from year to year and be capable of identification and may not be used for the payment of dividends or profits."

* * * * * * *

A regulation has been promulgated, clearing up a doubtful point in Section 7:—

"All executors, administrators, trustees, financial agents, receivers or other persons acting in a fiduciary capacity are required to make an income tax return on form T 3 on behalf of the fund which they administer in all cases in which the total income from the fund amounts to $500 or more during the calendar year, without regard to whether or not the beneficiaries of the fund may be taxable in respect of such income."

* * * * * * *

Such criticisms as have been made are not intended as applying to the administration of the Act. No assessments have been made, and in any case the writer feels that the taxpayer is sure to get a square deal, as he has under the Business Profits War Tax Act. It is advisable, however, that the Act and the amendments should be carefully studied so that taxpayers may be in a position to check up their assessments and safeguard their interests should they feel they are being unfairly dealt with.

* * * * * * *

SOME NOTES ON CLASSIFICATION.

By T. J. Miller, C.A.

"The English do not understand Indexing. It is the root of all good Organization."—H. G. Wells, in "Mr. Britling," page 254.

I.—DESCRIPTION AND RELATION TO BUSINESS RECORD-KEEPING.

Classification has two meanings:—

1. A Scheme of Classification—the result of classifying—a systematic distribution, allocation, or arrangement in a class or classes, especially of things which form the subject-matter of a science or of a methodic enquiry.
2. The action of arranging in classes (classing) according to common characteristics or affinities—assignment to a proper class in a scheme.

In this sense, it may be interesting to note, Classification is fundamental in mental activity. There is first sensation, which, with attention, becomes observation, which again involves instant (and usually subconscious) classification (*i.e.*, definition and comparison), and these lead to mental connections which are the foundation of memory. (See Quintilian's "Oratory," J. H. Bacon's "Guide to Memory" (Pitman), and B. F. Austin's "Rational Memory Training" (Rider), London, 1917.)

The system of Classification may be natural or artificial. The aim in a natural system of classification is to class objects according to the whole of their resemblances and differences. In an artificial system some arbitrary point of difference amongst the objects to be classed is chosen which affords the basis for classification; but no system is purely artificial, for even in science classifications are often made on the basis of a single quality for the sake of ready identification, but such as are based on a single or very few attributes are called artificial.

Professor Bowley says: "Statistics are numerical statements of facts in any department of enquiry, placed in relation to each other; statistical methods are devices for abbreviating and classifying the statements and making clear the relations. . . . Statistics may be called the science of counting."

It seems evident, then, that business record-keeping (bookkeeping) is an application of the statistical method. "Some statisticians hold the sound view that statistics is simply a quantitative record of the observed facts or relations in any branch or science. . . . The system of classification . . . must be capable of complete specialization so as to include the minutest details, and capable, too, of the widest generalization."—Patrick Geddes, "Royal Society Transactions," 1881.)

Accounting on its recording side is the highest form of bookkeeping (classification); but it has a wider meaning—that of interpreting the records and pointing the direction of business control ("Journal of Accountancy," Vols. II. and VII.).

The purpose of classification is control.

II.—THE PRINCIPLES OF CLASSIFICATION.

Bain, the logician, says that the methods of science are simply observation and definition (classification), induction and deduction—*i.e.*, one observes, experiments, defines and classifies, and therefrom makes generalizations from particular cases (induction) or draws a particular truth from a general (deduction). My object is to induce the business record-keeper to apply the methods of science to his work, and exhibit his business facts in groups and classes, thoughtfully arranged, so that the manager can make his generalizations and deductions, while he may, at the same time, have the detailed facts before him for reference.

Now there are certain rules for the right conduct of observation and experiment (both very necessary in costing):—

1. These must be precise.
2. Only material circumstances should occupy the attention.
3. The circumstances should be varied as much as possible.
4. The phenomenon should be isolated from all other phenomena.

Again, definition is fundamental in classification. Aristotle said that the first means of attaining to a definition of an object is to give it a place in a class. The purpose of definition is to fix the meaning. It is easier to describe than to define; but the one goes into the other, and definition may be nothing more than methodical description (consider the so-called definitions of Bookkeeping). "The chief practical rule for making our description methodical is to define *per genus proximum et differentiam*; that is, we distinguish the object from the class which it most resembles."

There are certain rules for the expression and formulation of definitions:—

1. The definition must state the most essential features of the objects to which the terms are applicable.
2. The term expressing the definition must be simply convertible with the term defined, neither too wide nor too narrow.

3. The definition should not be obscure.

4. A definition should not use explicitly or implicitly the term to be defined.

5. The definition should not be negative where it can be positive, and, as a special instance, opposites or contraries should not be defined by one another.

6. The definition should contain nothing superfluous .

"Before proceeding to the attempt to ascertain inductively the facts of co-existence or causation amongst a vast mass of phenomena, it is often highly important, if not essential, to arrange these phenomena in groups, as well as to determine the order in which these groups themselves shall be arranged."

"The general problem of classification," says Mr. Mill, "in reference to these (namely, scientific) purposes, may be stated as follows: To provide that things shall be thought of in such groups, and those groups in such an order as will best conduce to the remembrance and to the ascertainment of their laws."

Professor A. L. Bowley, in "An Elementary Manual of Statistics," says: Statistical treatment is necessary in a very great variety of cases, some of which may be distinguished as follows:—

"**Groups.**—If a large number of things or persons have something in common—*e.g.*, as members of the same nation, workers in the same occupation, houses in a defined locality, but differ one from the other in respect to some *measurable characteristic*—*e.g.*, age, amount of wages, rateable value—together they form a statistical group. Groups can be represented by diagrams, tabulated in grades, or described in abbreviated form by averages" (*e.g.*, in Bookkeeping—assets, liabilities, purchases (including expenses), and sales).

"**Classes.**—If the *characteristics* in which the things or persons differ are *not measurable*, but need separate description —*e.g.*, the number of persons in different districts or in different occupations in the same industry, or of houses used for different purposes—a statistical table can be made showing in juxtaposition the numbers in various classes and sections according to any scheme of classification, and the relative sizes of the classes can be indicated by percentages" (*e.g.*, in Bookkeeping—kinds of assets, liabilities, purchases (including expenses), and sales).

"**Series.**—If the numbers in some group or class are counted, or the quantities or values of some aggregate are measured, periodically (weekly, monthly, or annually), we obtain a statistical series whose nature is most easily appreciated with the help of a diagram" (*e.g.*, in Bookeeping—management sheets showing groups and classes in columns over a period).

Business record-keeping has to do with the following groups: Assets, Liabilities, and changes in these, both directly and indirectly, through purchases, expenses, and sales. To ensure intelligibility and managerial control each group must be subdivided into classes carefully arranged in order and exhibited periodically. It has been already indicated that this can be done, directly and plainly and very shortly, by a simple application of the scientific method which, according to Locke, following Bacon, is:—

1. Observation and record of facts.
2. Classification of facts.
3. Reasoning from classified facts.

III.—THE PRACTICE OF CLASSIFICATION IN BUSINESS.

(A) General.

1. **The Scheme of Classification—Groups and Classes and Order.**—For business purposes the balance sheet and profit and loss account give a first approximation to a scheme of classification. Consideration may then be given to possible departments, and from these, groups may be fixed upon, and the groups may be divided into classes, and these into sections.

Order is of the highest importance in any scheme of classification. The order of groups and classes should be carefully considered and set down, and then reconsidered before being finally fixed upon; and in all uses of the classification the same order should be preserved, whether of item sheets or of information on management sheets. For example, stocks must be recorded in the same order as purchases, and sales should, as far as possible, follow the same order.

Again, the order in which the management sheets are filed must be considered, and how the records of past years should be kept—whether on one file or more.

A general and workable scheme is to classify purchases (including expenses) thus:—

1. Capital expenditure.
2. Goods which are to be sold without change.
3. Goods which may be sold as they are or else are to be subjected to some process of manufacture.
4. Goods which are to be subjected to a process.
5. Expenses.

Each of these classes may be subdivided according to departments and may be rearranged under the departments, with the possible exception that capital expenditure may be kept together under departments if thought fit. Expenses may be divided into production, distribution, and office and general expenses.

2. **Classing.**—(*a*) The materials to work upon in deciding the classes and sections in any business are the invoices and the detailed stock sheets. Sometimes it is more convenient to go over the index of a bought ledger and jot in against each supplier's name the kinds of supplies got from him. These have then to be abstracted in some kind of order, and considered and arranged by numbering, and then the list should be rewritten and reconsidered and tentatively fixed on a working basis.

The classification should be extensive, for (*a*) it is easy to amalgamate, but less easy to dissociate, and (*b*) it is as easy to write in one place as in another. Any particular classification has to be made to meet the requirements of the particular case, and one of perhaps several possible bases of classification selected—*e.g.*, the classification may, for example, be by size or by rate per unit, or by rate of profit added, or by marginal prices in a particular group. Consider a practical case. It was said to be impossible to classify pigments—hundreds of shades of one color, etc.—but on enquiry it was found that prices ranged from 4d. to 6d. per pound, from 6d. to 1s. per pound, and above 1s. per pound, and this basis of classification was found to be satisfactory. In another case, size was the basis, with sections for regular sizes and odd sizes.

3. **Nomenclature and Symbols.**—The purpose of classification is control, and it must be capable of easy exercise.

(*a*) **Nomenclature.**—In business, nomenclature is not standardized—there may be many names for the same item. In the old days we spoke, for example, of a 15″ M.L. wood time-fuze. Now this might be indicated thus: Fuze Wood M.L. 15″. Again, in business it may be more helpful to the management to set out items in order of importance or of use in manufacture rather than in, say, alphabetical order. Sometimes initial letters are used instead of words, such as B.R., P.R., and Y.P.R. for Building Repairs, Plant Repairs, and Yard Plant Repairs, but care must be exercised to avoid error through doubtful lettering. Sometimes arbitrary letters are used, and this leads to a consideration of symbols.

(*b*) **Symbols.**—These are used for shortness in works orders, etc. They are usually selected with a view to aid the memory (mnemonics).

These symbols may be (01) Letters, (02) Numerals (03) Combinations of 01 and 02 and (04) Color, catchwords, setting out, etc.

(01) *Letters:—*

010. Alphabetical arrangement is useful for lists of debtors and creditors. These may, however, be arranged in districts or countries, or in some other group alphabetically.

011. Initial letters of words in long descriptions used for ease in recording requisitions, works orders, plant, etc. This is a matter of coding and requires to be very carefully done. Order of words, and consequently of letters, is very important. Consider the catchword "fuze" above.

012. Arbitrary lettering. Here the mnemonic element is usually not present. This is also a matter of coding, and very great care is needed to avoid possible and sometimes expensive mistakes.

013. There is also the use of italics and the Greek alphabet.

(02) *Numerals* (roman and arabic).

020. Straight numbering without fractions. This involves spacing the numbers to suit the heads in each group or class, and also leaving spaces in the classes for group and class extension.

021. Using an initial 0,00,000 or 0000, the first symbol (figure) indicating a group, and the others the place in the group or class. For example, in the classification for Electric Light Accounts (H. M. Edwards), in a three-symbol scheme 0 signified General Expenses; under that group was the class 00, Officers and Clerks, divided into sections 000, 001, 002, etc., for the various sections of officials. Then 01 was Printing; 02 General Office, with 021 General Office Miscellaneous, 025 Postage, etc.

022. Either 020 or 021 with decimals gives unlimited expansion. This was the method with which Dewey's name is connected. He gives, *e.g.*, 620 Engineering, 620.1 Engineering, Strength of Materials, etc. It has been contended that one so strong on mnemonics as Dewey is should not give a higher numbering to a subordinate class, but this criticism might be disarmed by assuming the decimal part to be negative, with a bar over the top as in the characteristic of a logarithm. The same writer (I. Kaiser) takes exception to the initial use of 0.

03. *Combinations of Letters and Numerals.*—The letters may be partly mnemonic and partly arbitrary, and the numbers may be used as desired.

(04) *Color.*—In the management record-keeping system already explained it is of advantage to use standard rulings, but this may sometimes be deviated from in the matter of different colors of ruling—*e.g.*, for different management sheets and for item sheets (*e.g.*, sales and supplies and expenses). This purpose can, of course, be served by catch-words properly placed (*e.g.*, item sheets: Purchases Broadcloth 1 at the right-hand top corner, so placed because more likely to be turned over at that point).

Color is used to distinguish paper and files for different purposes. Cut corners and the use of guide cards and metal discs (colored) may also be mentioned.

Again, estimates of varying degrees of accuracy may be indicated by colored ink. Much can be done with red alone, and more with green in addition.

Mr. Oberlin Smith gives three requisites of a good system of names and symbols: (1) Isolation (absolute identification), (2) Suggestiveness (mnemonic), and (3) Brevity.

It is, of course, essential that there should be an unequivocal index of symbols.

(B) The Practice as Applied to the New Method of Record-keeping.

1. **Item and Management Sheets.**—It has been said that the new method enables standardization; but at the same time each kind of business activity, and even each business activity of the same kind, has some specialty, and this, of course, is shown up in a standard form.

Probably sufficient indication of the method of procedure has already been given in the direction to find out what is done now, by whom, why, when; and how it is used.

Prepare a scheme of classification on the lines laid down under "(A) *General.*" Consider the headings of item sheets, also catch-words or color and use of columns, ruled as money columns, for other purposes also returning on the sheet to save paper; that both sides of the item sheet may be used; that only in very exceptional cases should an item sheet be used for more than one item. The objection to the so-called columnar method is want of continuity, and, therefore, difficulty in instant comparison of prices, quantities, etc.; also of carry overs with no change in amount (I have seen one item carried forward unchanged twenty-seven times in one month). An omnibus sheet for angle irons, for example, needs separate description of each size, whereas one writing of that size would be sufficient at the head of an item sheet; but any firm may use standard sizes and odd sizes (few in number), and in that case it might be useful enough to have one sheet for all odd sizes causing special description, but it is better as a rule to have separate item sheets—an odd size may become a standard.

The burden of all this is to avoid, except in very special cases (*e.g.*, job abstract sheet), the almost universal practice of writing more than one item along the top.

In the management sheet, dates are horizontal, groups and classes perpendicular. This is an extension of the last point, which, as in that case, is one of the special points in form of the new method (an exception in this category would be the bill sheet if it is called a management sheet). Management sheets are so wide that it is found convenient to have them written on one side only. Order of groups and classes (perpendicular) is, of course, vital.

2. **Filing.**—The tendency, even where an alphabetical arrangement of invoices or monthly statements is used, seems to be to arrange alphabetically over a month. It can readily be judged that for reference an alphabetical arrangement under sections Paid and Unpaid (or partly paid), according to date, over the whole accounting period to date is more practical. Stock requisitions may be filed under job numbers or put up with the whole papers connected with the job. This, and the filing of job sheets, patterns, designs, etc., require the most careful consideration.

Correspondence presents the difficulty that frequently one letter deals with several subjects. On the other side this is sometimes got over by writing the name and address once on the sheet dealing with the main subject and using a new sheet with name and date for each other subject; but, of course, this plan, and the plan of an entirely separate and complete letter on each subject, cannot be enforced. It is sometimes obviated when writing is on one side of sheet by cutting and noting name of sender and date on part cut.

Much is heard of so-called systems of filing and by card index. What is supplied is not system, but only an aid (although very valuable), and requires great care in installation and use. In fact, any system in it (*i.e.*, the classification) has to be evolved by the purchaser according to his needs, and it must be capable of change acording to his needs. If it is found, in a filing system, that documents are wrongly filed, originally or after being used, someone should be put in charge whose duty it is to file. There should be a receptacle for documents (a basket on the top of the cabinet). If anyone may take documents from the cabinet, it might be useful to have a record in the receptacle on which to note, with initials, the abstraction of the document.—From the Accountants' Magazine.

A NEW BANKRUPTCY ACT.

By N. L. Martin, C.A.

FOR many years the Press, Bar Associations, Boards of Trade and other public bodies in Canada have been advocating Dominion-wide bankruptcy legislation, and it will be welcome news in banking, mercantile and accountancy circles that such a measure is now in sight. During the last session of the House of Commons a bill, cited "The Bankruptcy Act," was introduced to the House, and was referred, with the apparent approval of the Government, to a committee of the House for consideration and revision. The Council of the Institute of Chartered Accountants of Ontario named a committee to consider the provisions of the proposed bill, and this body, at the request of the Committee of the House, sent a deputation to wait on them for the purpose of discussing the terms of the bill. This deputation submitted a number of changes and additions to the Committee of the House, all of which were received with every consideration and courtesy.

It is entirely too early to speak with any confidence as to the ultimate fate of the bill. Many changes may be introduced when it comes back to the House, and there is, indeed, at present no assurance that it will ever become law. However, the matter has advanced to such a stage and the prospects for the bill appear to be sufficiently bright to make a brief outline of the principal features of the bill of general interest. In the preparation of this legislation the provisions of the bankruptcy laws in effect in England have been pretty closely followed, eliminating much unnecessary routine and incorporating the best of the various Provincial Acts now in force throughout Canada with regard to assignments for benefit of creditors.

In the first place, the Act extends to all the Provinces of the Dominion of Canada, and if it becomes law it will take precedence to all existing legislation. The Act will apply to incorporated companies as well as to persons and firms doing business in Canada, excluding only wage-earners and farmers. It will not, however, affect the operation of the Winding-up Act.

Provision is made for the creation of a bankruptcy court in each province for the administration of the Act, and for the appointment of registrars to assist therein.

Under the provisions of the bill any creditor having a claim of $200, whether due or not, may present a petition to the Court to have his debtor declared bankrupt and a trustee appointed for the estate. Briefly, a debtor commits an act of bankruptcy if he makes any improper or fraudulent conveyance of his assets; departs out of Canada with intent to defeat creditors; permits any execution to remain unsatisfied for within four days of the sale or for ten days after seizure, or if the execution is returned *nulla bona*; if he assigns, removes, secretes or disposes of his property with intent to defeat his creditors, or if he is about to do so; if he makes any bulk sale of his property without complying with the provisions of any Provincial Bulk Sales Act; if he exhibits a statement showing his insolvency, or if he becomes insolvent.

If the creditor's petition is granted, a trustee is thereupon appointed as a receiver for the estate, who immediately takes possession thereof.

A petition may be filed against the estate of a deceased debtor, just the same as though the insolvent were alive.

Provision is also made for a voluntary assignment for the benefit of creditors. The assignment may be made to an Official Trustee, as provided for in the Act, or to any other person in the province where the assignor resides, but if made to any other person than an Official Trustee, the consent, in writing, of the majority in number and amount of the creditors must first be obtained. The assignment or receiving order will take precedence to all executions not completely executed by payment, but provides for the preferential payment of the costs of all execution creditors. Provisions are made for the registration of the assignment and the usual judicial advertising.

An important feature of the Act is that an insolvent may, either before or after the making of a Receiving Order, or of an assignment for the general benefit of creditors, require one of the trustees, whose appointment is provided for in the Act, to call a meeting of his creditors for the purpose of making a proposal for a compromise, extension of time, or for a scheme of arrangement of his affairs, the meeting to be held in the office of the trustee. He is required to lodge with the trustee a correct statement of his affairs and a written proposal of the suggested settlement.

The trustee shall call this meeting, and must send with the Notice to Creditors a copy of the statement of affairs and a copy of the debtor's proposal. If at such meeting a majority in number and three-quarters in value of all the creditors resolves to accept the proposal, it shall be deemed to be duly accepted by all, and, if afterwards approved by the Court, shall thenceforth be binding on all the creditors—secured creditors, of course, ranking only on their unsecured balances. The first meeting of creditors called after an assignment or Receiving Order has been made may deal with a settlement of this nature if the necessary notice of such a proposal has been given.

A debtor may be examined before the Registrar if ten per cent. in value of the creditors request such an examination, and this examination may be read upon the hearing of an application for the approval of any scheme of settlement by the Court. Should a debtor default in the payment of any instalment due with respect to such a settlement, or if at any time the Court considers the interests of the creditors in jeopardy, it may adjudge the debtor bankrupt and annul the terms of the settlement.

Should the Court approve of any settlement with regard to the affairs of a debtor who has been previously adjudged bankrupt, or who has made an assignment, the Court may annul the bankruptcy or assignment and revest the estate in the debtor.

Provisions are made for the appointment by the Governor-in-Council of any number of persons in each province to act as trustees for the administration of estates under this Act. The question of the means of determining the fitness of any persons making application for this appointment is as yet not fully worked out. Such trustees must deposit a bond for $10,000.00 with the Court, which must remain effective until satisfactory evidence has been produced that all the estates in his hands have been fully administered. The trustee may charge up to each estate in his hands an amount not exceeding $5.00 to reimburse himself for the expense incidental to furnishing this security. In addition to this, a trustee, whether one of the Official Trustees or otherwise, must furnish a specific bond for the amount fixed by the Registrar, unless the creditors at a meeting waive the necessity for his so doing.

The majority in number and value of the creditors who have proven claims to the amount of $25.00 or upwards may, at their discretion, at any meeting of creditors substitute any other person for the trustee named in the Receiving Order, or to whom an assignment has been made.

The trustee may hold property, make contracts, sue or be sued, in any part of Canada in connection with the adminstration of an estate.

The trustee may carry on the business if the creditors wish, and, with the permission of the Inspectors of the Estate, may employ the debtor himself to superintend the management of any such operations, making the debtor such allowance as the inspectors may direct. Satisfactory provisions are made for the protection of the trustee with respect to these operations.

The task devolves upon the trustee of liquidating the assets and paying the debts of the debtor as expeditiously as possible, and generally under the direction only of the creditors or the inspectors. The debtor's exemptions consist of such goods as he may be entitled to in accordance with the laws of the province in which he resides.

There are a number of sections with respect to improper preferences, and it is as yet uncertain just exactly how the bill will read in this regard when it comes back to the House of Commons. However, it can be safely said that the new Act will go much further than any previous legislation in Canada in setting aside improper conveyances or securities given in such a manner as to unjustly or improperly prefer one creditor over the others while such debtor was insolvent. These sections also deal with the necessity for the registration of assignments of book debts where provincial legislation exists.

A trustee is required to pay as large a dividend as possible within six months, and as often as he has sufficient on hand to pay a dividend of ten per cent. When the final dividend is prepared a dividend sheet must be sent to the creditors, noting all receipts and disbursements. A creditor who has not proved his debt before the declaration of any dividend can afterwards file his claim and receive his dividends, provided he does not disturb prior distributions. The debtor is entitled to any surplus over and above the claims of his creditors and the costs of administration.

There is an important section that if the debtor, or any of the creditors, or any other person is aggrieved by any act or decision of the trustee he may apply to the Court for remedy.

The trustee's remuneration is to be fixed by the creditors, or by the inspectors in case they fail to do so. If it should not be so fixed, the trustee may retain a sum not exceeding five per cent. of the cash receipts, subject to review by the Court. The disbursements of a trustee must be taxed by the Registrar of the Court, unless such taxation is waived by a general meeting of creditors or by the inspectors.

A meeting of the creditors must be called within five days from the date of the assignment or Receiving Order, the meeting to be called not later than fifteen days afer the mailing of the notice.

No creditor can vote at a meeting until he has properly filed his claim, and a secured creditor must place some value on his security and vote only on the balance. A creditor may vote by proxy, and votes are calculated in the same manner as under our Ontario Assignment Act. There is provision for the appointment of inspectors and for their remuneration. Claims must be filed by means of the customary affidavit, and satisfactory provisions are inserted, giving a secured creditor reasonable time in which to place a value on security held by him, apart, of course, from the question of voting at the first meeting of creditors. The trustee may elect to acquire the whole or any separate security upon payment to the creditor of the assessed value, to be paid out of the estate as soon as the trustee has realized on the security; or the trustee may require that the property comprised in any security be offered for sale, at which sale the trustee or the creditor may be a bidder. The creditor, on the other hand, may require the trustee to elect within a reasonable time whether the security is to be redeemed or not. Provision is also made for the amendment of any valuation under proper conditions, and also for revaluation in case of realization by the creditor before the payment of the final dividend. In no case can a creditor receive more than 100 cents on the dollar and interest from the proceeds of his security and dividends.

There is a distinct departure with regard to restricted creditors. These sections are subject to further review, but it is quite probable that the Act, when passed by the House of Commons, will contain very stringent restrictions with regard to family claims for wages and relatives' claims for wages, and claims of wives against their husband's estates for moneys loaned or otherwise. These sections will also postpone the payment of any wage claims of shareholders or directors exceeding an amount equal to three months' wages.

The running of interest stops at the date of the Receiving Order or assignment, and a deduction is to be made on claims not due at the time of the assignment at the rate of six per cent. per annum, computed from the declaration of a dividend to the time when the debt would have become payable.

There is a decided innovation in the sections dealing with the priority of claims. These sections provide for distribution as follows:—

1. The fees and expenses of the trustee.

2. The costs of execution creditors.

3. Wages—for three months prior to the date of the Receiving Order.

4. Taxes, rates or other sums levied by any Statute or By-law, parliamentary or municipal, to an amount not exceeding the sums levied in respect of the twelve months immediately preceding the date of the Receiving Order or assignment, but extending only to the amount realized out of the property upon which they are specifically imposed.

5. Rent for three months prior to the date of the Receiving Order or assignment, provided the same does not exceed the value of distrainable assets, the landlord being entitled to file for the balance of his claim and for any future rent which he may be entitled to under his lease, not exceeding three months. Other-

wise the landlord shall not be entitled to prove as a creditor for any portion of the term of his unexpired lease. The trustee may, however, occupy the premises for the balance of the unexpired term by giving proper notice and paying rent.

A debtor is required to assist the trustee in the preparation of a statement of his affairs; to attend the first meeting of creditors and answer any quesions put to him; and under a penalty is obliged to generally assist the trustee in the administration of the estate. He may be arrested if it appears that he has absconded, or is about to abscond, with a view to avoiding payment of the debt in respect of which a Petition of Bankruptcy is filed; or if there are grounds for believing that he is about to fraudulently dispose of his goods, or destroy writings after the presentation of a bankruptcy petition.

In addition to the examination of the debtor, his servants and clerks, there may also be examined any person who is suspected to have in his possession any of the property of the debtor, or any books, documents or papers relating to his affairs.

An outstanding feature of this legislation provides a number of sections dealing with the discharge by the Court of a bankrupt or assignor. The insolvent may, at any time after three months, make an application to the Court for his discharge. The creditors are advised as to the date appointed for the hearing of the petition. The trustee must file with the Registrar a report as to the conduct and affairs of the bankrupt, both before and after the bankruptcy, and also a copy of his examination, if such examination has taken place. On the hearing of the application the Court shall take into consideration the report of the trustee, and may either grant or refuse an absolute order of discharge, or may suspend the operation of the order for a specified time, or grant an order of discharge, subject to any conditions with respect to any earnings or income which may afterwards become due to the bankrupt. This discharge shall be refused or suspended if the bankrupt has been guilty of any offence connected with his bankruptcy; if the assets are not of a value equal to fifty cents on the dollar of the liabilities, unless it can be shown that the insolvent cannot be justly held responsible for the circumstances, as the result of which his estate does not show this condition to exist; that he has neglected to keep such books of account as are usual and proper in the business carried on by him, and has sufficiently disclosed his business transactions and financial position within the three years preceding his bankruptcy; that he has continued to trade after knowing himself to be insolvent; that he has contracted any debt without a reasonable expectation of being able to pay it; that he has failed to account satisfactorily for any loss of assets or any deficiency of assets to meet his liabilities; that his bankruptcy has been brought on by rash speculation, unjustifiable extravagance, gambling or neglect; that he has put his creditors to unnecessary expense by frivolous litigation; that he has given an undue preference to any of his creditors within three months preceding his assignment; that he has, within three months, incurred liabilities with a view of making his assets equal to fifty cents in the dollar of his liabilities; that he has on any previous occasion been adjudged bankrupt, or made an assignment, or arranged with his creditors; or that he has been guilty of any fraud or breach of trust. The discharge of the debtor will not necessarily release the bankrupt or the assignor from debts to the Crown, from a debt incurred by means of fraud, or for necessities, and certain other specified liabilities.

The Governor-in-Council may appoint a committee of judges in each province for the purpose of making, revoking and altering the general rules, and drawing up the necessary forms for carrying into effect the object of the Act.

The last part of the Act contains ten sections with respect to bankruptcy offences. It is, perhaps, unnecessary to go into these in this short article, but these sections may be summed up by stating that the path of the debtor who endeavors to improperly conduct his affairs so as to defraud his creditors will be a rough and thorny one. Among these sections is one compelling the keeping of proper books under a penalty of a fine of $800.00 or one year's imprisonment, such books to be kept in either the English or French language.

Should this Act, in something like its present form, eventually become law, the Dominion of Canada will undoubtedly have in operation the most expeditious, workable and economical bankruptcy legislation of any English-speaking community in the world.

All other qualities go for nothing or for worse than nothing unless honesty underlies them—honesty in public life and honesty in private life; not only the honesty which keeps its skirts technically clean, but the honesty that is such according to the spirit as well as the letter of the law; the honesty that is aggressive, the honesty that not merely deplores corruption—it is easy enough to deplore corruption—but that wars against it and tramples it underfoot.—Roosevelt.

PRELIMINARY EXPENSES.

By E. T. Spackman, A.I.A.V., A.A.I.S.

PERHAPS the very elasticity of the term is the reason for the point often being raised as to what are "Preliminary Expenses." These expenses are incurred in connection with the formation of a company and bringing it up to a revenue-earning stage, generally commenced after the first allotment of shares, and usually include the following items, viz

Registration Fees.

Law Costs for preparing Prospectus, Memorandum and Articles of Association, and for drawing up agreements, etc.

Professional Charges of Accountants, Valuers and other experts.

Cost of Printing, Filing and Advertising Prospectus, Printing and Filing Memorandum and Articles of Association.

Cost of Company's Seal and original Books of Account, including Share Registers, etc.

Preparing, Printing and Stamping Letters of Allotment and Providing Share Certificates.

Cost of Preparing, Printing and Stamping Debentures and Debenture Trust Deed, if any.

Parliamentary Expenses, if any.

Though Underwriting Commission and Commission on placing shares fall naturally under this heading, they should not be included, but be shown separately on the balance sheet until written off.

As Preliminary Expenditure is of a Capital nature, a Company is not bound to eliminate any part thereof. But as it is not represented by tangible assets, of which the undertaking can avail itself, it is advisable to write the Account off, and this is usually done over a period of three or five years.

The question then arises how the book value of this expenditure should be eliminated.

It may be contended that Preliminary Expenditure is an asset similar to Goodwill and should be treated as such, *i.e.*, (*a*) permanent asset, (*b*) eliminated, or reserve created, by appropriations of profits. Dicksee, writing on the subject of Goodwill, appears to support this view: "The expenditure incurred in advertising a new invention, in order to bring it prominently before the public, and the loss almost invariably incurred in starting a newspaper or the branch of a bank, etc., may not improperly be debited, in the first instance, to 'Establishment

Account,' and, in so far as these expenditures have been judicious, a residual value will doubtless remain in respect of them, which may fairly be treated as 'Goodwill.' "

It certainly comes within the definition: "The Goodwill of a business consists of all the varous advantages, in addition to the tangible assets, which aid in carrying on its trade and in making it profitable." The obvious advantage is that the undertaking is a properly registered Company, and, therefore, investors, and, legally, a much larger number of them, are more likely to take an interest in it (other things being equal) than in a private firm; because is not the constitution of the undertaking established for all time, their liability limited, and their interest, in comparison, easily transferred, and are they not protected to a great extent by a highly efficient Companies Act? It would be difficult to describe this capability of producing favorable consideration, otherwise than a form of Goodwill; and has it not arisen from Preliminary Expenditure?

Other arguments may also be advanced why this Account should not be written off to Profit and Loss. In this connection we may apply Spicer and Pegler's reasoning on Goodwill to Preliminary Expenditure: "It is not consumed or exhausted in the process of earning income; it is not subject to wear and tear nor to obsolescence; it does not suffer depreciation as a necessary consequence of carrying on business; it does not require to be renewed."

The object of the Profit and Loss Account is to show the net trading profit and the percentages of the working expenses. As this expenditure is not a working expense, to write off the whole or a portion of it to Profit and Loss is to defeat the object of the account and destroy the utility of the percentages of the working expenses. It would appear, then, that the elimination of Preliminary Expenses would be carried out more scientifically by appropriations of profits than charges to Profit and Loss.

The most perfect and best of all characters, in my estimation, is his who is as ready to pardon the moral errors of mankind as if he were every day guilty of some himself, and at the same time as cautious of committing a fault as if he never forgave one.—Pliny.

AUDITING PATRIOTIC ASSOCIATION ACCOUNTS.

By Duncan B. Macdonald, C.A.

CHARTERED ACCOUNTANTS are not infrequently called upon to verify and certify the Statements of Receipts and Expenditures of Patriotic and other Associations formed for the amelioration of untoward conditions resulting from the war. While all these have the same laudable desire to render an account to the public of their trusteeship of the generous sums entrusted to them for benevolent purposes, all of them have not the faculty of recording the details of the trust funds and the disposition made of them, in such a way as to facilitate the verification of their accounts by the Auditor.

There are four important points to be observed in these audits:—

1. The verification of the Receipts to see that the Cash taken to Debit by the Cashier represents the total revenue from the source or sources of revenue.

2. The verification of the expenses to see that they are reasonable and duly authorized by those vested with authority to incur expense.

3. The verification of the purchases to see that they are made from reputable concerns at current market prices and that the materials supplied to volunteer workers are fully represented in the completed articles received from them.

4. The verification of the shipments to see that they are properly authorized and recorded in sufficient detail to show that they represent fair value for the funds absorbed in their manufacture, preparation and shipment.

The verification of Receipts has its difficulties. Where these are derived from Tag-day drives, the Auditor should see the chart of the organization for the drive and see the Cash Specification Slip made out by each one appointed to receive money, verified by the Treasurer of the Committee. If these are not available, he must be satisfied with verbal assurances, but he must qualify his certificate accordingly. Where the receipts are individual donations from philanthropic citizens he will verify the Counterfoils of the Accountant's Receipts with the letters which accompanied the donations. The eventual publishing of the names of the donors is regarded as a safeguard against the diversion of such funds as these. The Auditor will also verify the Cash Book entries with the Accountant's counterfoil Receipts, and with the Bank Pass Book.

The verification of Expenses differs from the verification of the expenses of ordinary business concerns, in that the Auditor must bear in mind the avowed objects, purposes and aims of the Association on the representation of which public support has been obtained and see that the expenses are reasonable and consistent with these objects, purposes and aims, and duly authorized and certified by those vested with authority to incur expense. The Auditor will, as in the course of his ordinary work, examine the Minute Book to see the authorization for paying out money, signing cheques and buying and receiving goods.

The verification of purchases involves a close scrutiny of all creditor's Bills to see that the Association has dealt direct with principals, has paid current market prices and has not paid prices which include commissions to sham patriots. The Auditor will also see that the quantities purchased and paid for are certified to be correct by some one in a position to do so conscientiously, and where goods are supplied, to volunteer workers, for knitting and sewing, the Auditor will examine to see that the methods of recording the allotment of materials to, and the return of, completed articles by volunteer workers is adequate to disclose any negligence in returning a number of completed articles which fairly represents the materials allotted for their manufacture.

The verification of the final disposition of the manufactured article is most important. The Auditor will examine the Mailing and Shipping Schedules signed by the authorized representatives of the post office Department and Transportation Companies to see that the benefits accrued only to persons comprised in the category of persons for the benefit and relief of whom the Association is maintained. The Auditor will also satisfy himself that the sum total of articles so forwarded represents a fair and reasonable value for such of the trust funds as has been absorbed in the purchase of materials and the manufacture, preparation and shipment of the articles forwarded.

It is the Auditor's duty, therefore, to see that all the revenue is taken to debit in the Books of the Association, and that fair value for all this revenue, having due regard to the necessary and reasonable expense of operation, accrues to the benefit of those for whom it was intended. The Transportation Companies always give detailed manifests of goods entrusted to them for transportation and delivery, but the Post Office officials only give receipts for Registered matter. The Auditor must assure himself that the goods and benefits were not diverted to others than those contemplated in the objects of the Association, that the number of packages recorded is verified by someone other than the one taking credit for them, that the contents of the packages is similarly verified, and that the benevolent purposes of the Association have been honestly and efficiently conducted.

AMENDMENTS TO THE BUSINESS PROFITS WAR TAX ACT, 1916.

R. Easton Burns, C.A.

At the recent session of Parliament this Act was amended as follows:—

Section 3, as amended in June, 1917, provided a graded tax on the profits of any business employing a capital of $50,000, with exemption to the extent of seven per cent. in the case of incorporated companies and ten per cent. in the case of all other persons on the capital employed. The recent amendment imposes a tax of twenty-five per cent. on the profits made by any business employing a capital of $25,000 and under $50,000, with an exemption of ten per cent. on the capital employed.

Paragraph (a) is amended to include the taxes paid under the Income Tax Act, 1917, in the amounts to be deducted from the tax payable under this Act, with the additional proviso that in computing profits no taxpayer shall include such payments as expenses of the business.

Paragraph (c), which provided for the deduction from tax payments of taxes paid for the prosecution of the war under legislation of Great Britain or any of her Allies, is repealed.

As amended, Section 3 reads:—

There shall be levied and paid to His Majesty a tax of twenty-five per centum of the amount by which the profits earned in any business exceeded, in the case of a business owned by an incorporated company, the rate of seven per centum per annum, and in the case of a business owned by any other person, the rate of ten per centum per annum upon the capital employed in such business. Such tax shall be levied against and paid by the person owning such business for each and every accounting period ending after the thirty-first day of December, one thousand nine hundred and fourteen. In any business where the said profits exceed fifteen per centum per annum the said tax shall be increased to fifty per centum with respect to all profits in excess of the said fifteen per centum, but not exceeding twenty per centum per annum, and where the said profits exceed twenty per centum per annum the said tax shall be increased to seventy-five per centum with respect to all profits in excess of the said twenty per centum, and such increases in the tax shall be levied against and paid by the person owning such business for each and every accounting period ending after the thirty-first day of

December, one thousand nine hundred and sixteen. Any person having a business with a capital of not less than twenty-five thousand dollars and under fifty thousand dollars shall pay a tax of twenty-five per centum of the amount of the profits exceeding ten per centum per annum upon the amount of the capital employed therein.

Provided, however:—

(a) That the amount paid or payable by any person under the provision of Part One of the Special War Revenue Act, 1915, and the Income War Tax Act, 1917, shall be deducted from the amount which such person would otherwise be liable to pay under the provisions of this Act; and the Minister shall have power to determine any questions that may arise in consequence of any difference in the several periods for which the taxes under the said Acts and this Act respectively are payable, and the decision of the Minister therein shall be final and conclusive, but in computing the profits of his business no taxpayer shall include any taxes paid under the said Acts in the expenses of his business; and

(b) That the dividends received from the stock of any incorporated company which has paid a tax upon its profits under the provisions of this Act shall not be included when the profits of any business are being determined.

Section 5, providing that the Act shall not apply to any business with a capital of less than $50,000 is amended to include any business with a capital of $25,000.

Sub-section 4 of Section 7 provided for the inclusion of accumulated profits as capital. An amendment in 1917, effective from May 18th, 1916, provided that the accumulated profits held at the commencement of an accounting period should be considered as capital while employed in the business. The 1918 amendment adds a clause defining dividends paid during the accounting period as a reduction of capital. The sub-section now reads:—

For the purposes of this Act the actual unimpaired reserve, rest or accumulated profits held at the commencement of an accounting period by an incorporated company shall be included as part of its capital as long as it is held and used by the company as capital, and dividends paid during an accounting period shall be considered as a reduction of unimpaired reserve, rest or accumulated profits."

Section twenty-six limited the operation of the Act to December 31st, 1917. This section is repealed and now reads:—

"The provisions of Section three of this Act shall not continue in force after the thirty-first day of December, one thousand nine hundred and eighteen.

"Provided, however, that with respect to every business liable to taxation hereunder the period for which the returns shall be made and during which it shall be liable for assessment shall be at least forty-eight months, commencing with the beginning of the first accounting period ending after the thirty-first day of December one thousand nine hundred and fourteen, or for such less period as the business may have been carried on from the beginning of the said accounting period to the end of the period for which the said tax may be levied under this Act.

Provided, also, that the tax payable in respect of any business with a capital of not less than twenty-five thousand dollars shall be payable for all accounting periods commencing after the thirty-first day of December, 1917."

In June, 1917, Sub-section one of Section thirteen, which provided for the payment of the tax in November of each year, was amended by substituting for all that part of the sub-section referring to the November payments the following:—

"The tax shall be paid each year within one month from the date of the mailing of the notice of the assessment."

The outstanding features of these changes are the lowering of the minimum capital to $25,000 and the extension of the operation of the Act for a period of one year. The wisdom of limiting the time to three years or four years has been questioned on the ground that such limitation provides an incentive to conceal profits by reduction of inventories. Such a practice can be made effective for a limited period but cannot be employed indefinitely. In the new form of return, to be used for the third and fourth periods, the department has included some searching questions with respect to methods of taking inventories which would seem to show that some persons have been attempting to evade the tax in this way.

The lowering of the minimum capital to $25,000 is a recognition of the fact that many companies with small capitalization have been making large profits. The exemption of ten per cent. on the capital employed by small companies is fair, inasmuch as these concerns are largely one-man concerns that do not pay the proprietors large salaries.

In considering the question of exemption no attempt has been made to equalize the positions of privately-owned companies and individuals employing a capital of $50,000 or over. In such cases the man who incorporates pays an extra three per cent. on his capital as compared with his rival who has not incorporated. The new form (J) on which returns are to be made is intended for the third accounting period, and, if properly filled out, should simplify and lessen the work of the Department. The practice has been to send a letter to each taxpayer, enclosing a set of forms, and specifying the date to which the return was required. A subsequent letter asked for particulars as to dividends, etc.

As far as can be learned, it is the intention to assess under the Income Tax Act, 1917, and credit the payment on the Business Profits War Tax. The extra time and labor involved in handling two sets of returns, to say nothing of the annoyance and worry to the taxpayers in having to prepare them, might have been avoided by requiring one set only where it is evident that the Business Profits War Tax, 1916, will apply and produce a payment in excess of what will be collected under the Income Tax Act, 1917.

THE TRADE ACCEPTANCE.

By H. Langtry.

A NEW form of negotiable paper has been added to the many forms of notes, drafts and bills of exchange already in use in Canada. The new form, which has recently been adopted by various business houses throughout the country, is the Trade Acceptance. The form is similar to the ordinary draft now in use, but goes one step further, and states that the draft has been drawn for goods sold, and in accordance with the terms of the original purchase. It cannot, therefore, be used in connection with overdue accounts or for transactions where goods have not been actually sold and delivered. It is really an acknowledgment of a debt by the buyer in favor of the seller for merchandise that the seller has placed in the hands of the buyer. The buyer agrees, in writing across the face of this acceptance his name, the name and location of his own bank and the date, to pay the amount of this stated indebtedness at a stated time at his own bank.

The Trade Acceptance is defined as "a bill that has arisen out of an actual commercial transaction, domestic or foreign." It is not used in the same way as the ordinary draft, which is drawn usually after an account becomes due and placed with a bank for collection. The acceptance is sent direct to the buyer as soon as the invoice or statement is rendered, with a request to accept and return as soon as goods have been received and checked. As soon as the acceptance is received by the seller the account is in liquid negotiable condition and can be turned over to the bank at its face value. All current accounts may be covered by acceptance in this way and the acceptances held by the seller until due or discounted, as he wishes.

This method of handling accounts will improve the standing of the buyer with the seller, because he definitely obligates himself to pay the account at a specified time and place. It improves the standing of the seller with his creditors and with his bank, because he has his accounts in negotiable condition at all times, and if he discounts paper, his banker knows he is dealing with current bills when Trade Acceptances are handed to him for discount, and not drafts covering long past due accounts, or perhaps accounts that do not exist at all.

The seller holding Trade Acceptances feels more confident that his accounts will be paid at maturity, and undoubtedly has the advantage over the merchant who, selling the same trade, does so on the open account basis.

Especially at this time is the Trade Acceptance said to be of greater advantage as negotiable paper, owing to the fact that many firms with small capital are now carrying very heavy stocks and doing business beyond the amount warranted by their capital. Unaccepted drafts as collateral security are considered worth, when presented at a bank, about 50 per cent. of their face value, and that would be about as much as any banker would be warranted in advancing, whereas with the Trade Acceptances a much higher percentage can be obtained, if not the full face value.

If an account becomes risky after an acceptance has been given, and suit is necessary, there is no need of any further proof of claim. This is another advantage for the person holding a Trade Acceptance as compared with the previous method of doing business on the open account plan.

Strong impulses are but another name for energy. Energy may be turned to bad uses; but more good may always be made of an energetic nature than of an indolent and impassive one.—J. S. Mill.

FIRE INSURANCE AND PRESENT-DAY VALUES.

By R. F. Rowlands, C.A.

IT may still be a matter of opinion whether an examination of the quantity and quality of the fire insurance carried by a client falls within the scope of an audit. It will, however, be agreed that an Auditor who enquires into this feature of a business is erring on the right side, and his comments would no doubt be appreciated. Fire insurance in Canada is not a provision against a remote contingency. It might, perhaps, with some reason be so regarded in European countries, but the fire fiend's activities are much too constantly in evidence here. Thanks very largely to childish carelessness, the *per capita* loss by fire in the Dominion is equalled by no other country in the world. It, therefore, behoves the prudent owner of property—real or personal—at all times to be sure that he is adequately protected against this danger.

During the past four years a new and disturbing factor has entered into the question of the sufficiency or otherwise of one's insurance protection, viz., the increased and ever-increasing cost of materials and services. The natural result of such increase is to enhance the value of all kinds of exchangeable commodities, no matter whether purchased before or since the war broke out. In the event of property being destroyed or damaged to-day it could not be replaced or repaired except at a very materially higher figure than would have sufficed in the days immediately before the war. Take the building trades, for instance. It is no exaggeration to say that replacements and repairs in this line cost from 30 per cent. to 100 per cent. more to-day than they would have done in the first six months of the year 1914.

It follows that what would have been rightly considered adequate protection on a given property four years ago is to-day very much the reverse, and a careful review of the relation that his insurance cover bears to present-day values will well repay the proprietor or manager, and possibly also surprise him. The insurance community has done much to arouse attention to this new and serious development, but evidently much remains to be done, and a suggestion by the Auditor in this direction would doubtless be valued.

Owners carrying what may be called straight insurance might or might not find that their pre-war cover, whilst insufficient to cover a total loss, would protect them in case of partial losses. To those, however, who purchase their insurance on an 80 per cent., 90 per cent. or 100 per cent. coinsurance basis the matter assumes quite a different complexion.

An illustration may help to make the situation more clear. It is, of course, understood that losses by fire are settled on the basis of current or market prices and not cost prices. Let us take as an example a fire damage to a wholesale stock, the policies on which contain the 80 per cent. coinsurance clause.

It may be assumed that stock was taken as at December 31st, and it may be also assumed that it was taken at invoice prices, and that it was insured for 80 per cent. of the value as shown by the inventory. It may be further assumed that there has been a rising market in this line of goods. At the end of September a fire occurs, and a partial loss, amounting to 25 per cent. of the value, is sustained. The adjustment works out as follows:—

Inventory at invoice prices, December 31st..........	$100,000
Insurance carried thereon (80 per cent.).............	80,000
Market value of stock at date of fire as per stocktaking for adjustment purposes	120,000
Insurance required by the coinsurance clause (80 per cent.)	96,000
Agreed loss, 25 per cent. of inventory as at end September	30,000
Insurance companies' share of loss, 80/96ths........	25,000

And the owner contributes the balance ($5,000) of the loss himself. Adjustments on the principle shown above have been approved by the courts and are valid.

The moral appears to be that the insurance account should not receive attention around inventory time only, but, until markets become more stable, it is advisable to frequently compare it with current values. If this remark be pertinent to ordinary straight insurance, it is trebly pertinent to insurance containing a coinsurance condition.

Much is, has been, and, no doubt, still remains to be said about increase in prices. It is, therefore, a satisfaction to know that the price of one of the necessities of life practically remains the same to-day as before the war—the necessity referred to is Fire Insurance.

8-9 GEORGE V.

CHAP. 10,

An Act to amend The Business Profits War Tax Act, 1916.

[*Assented to 24th May, 1918.*]

HIS Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1916, c. 11; 1917, c. 6.

1. (1) Section three of *The Business Profits War Tax Act, 1916*, chapter eleven of the statutes of 1916, as amended by chapter six of the statutes of 1917, is amended by adding the following immediately before the proviso to the said section:—

Tax on businesses with capital $25,000 to $50,000.

"Any person having a business with a capital of not less than twenty-five thousand dollars and under fifty thousand dollars shall pay a tax of twenty-five per centum of the amount of the profits exceeding ten per centum per annum upon the amount of the capital employed therein."

(2) Paragraph (*a*) of the proviso to said section three is repealed and the following is substituted therefor:—

Taxes paid under Acts mentioned to be deducted but not to be included in business expenses.

"(*a*) that the amount paid or payable by any person under the provisions of Part One of *The Special War Revenue Act, 1915*, and *The Income War Tax 1917*, shall be deducted from the amount which such person would otherwise be liable to pay under the provisions of this Act, and the Minister shall have power to determine any questions that may arise in consequence of any difference in the several periods for which the taxes under the said Acts and under this Act respectively are payable, and the decision of the Minister thereon shall be final and conclusive, but in computing the profits of his business no taxpayer shall include any taxes paid under the said Acts in the expenses of his business";

Par. (c) of s. 3 repealed.

(3) Paragraph (*c*) of the said proviso to section three is repealed.

2. Paragraph (*a*) of section five of the said Act is amended by striking out the word "fifty" in the third line thereof and substituting therefor the words "twenty-five."

Exceptions in s. 5 reduced.

3. Subsection four of section seven, as enacted by chapter six of the statutes of 1917, is amended by adding thereto the following:—

Dividends paid considered a reduction of reserve, etc.

"and dividends paid during an accounting period shall be considered as a reduction of unimpaired reserve, rest or accumulated profits."

4. Section twenty-six as amended by section four of chapter six of the statutes of 1917 is repealed, and the following is substituted therefor:—

Tax continued for another twelve months.

"**26.** The provisions of section three of this Act shall not continue in force after the thirty-first day of December, one thousand nine hundred and eighteen.

"Provided, however, that with respect to every business liable to taxation hereunder the period for which the returns shall be made and during which it shall be liable for assessment shall be at least forty-eight months, commencing with the beginning of the first accounting period ending after the thirty-first day of December, one thousand nine hundred and fourteen, or for such less period as the business may have been carried on from the beginning of the said accounting period to the end of the period for which the said tax may be levied under this Act.

"Provided, also, that the tax payable in respect of any business with a capital of not less than twenty-five thousand dollars and under fifty thousand dollars shall be payable for all accounting periods commencing after the thirty-first day of December, 1917."

When tax on businesses from $25,000 to $50,000 capital begins.

8-9 GEORGE V.

CHAP. 13.

An Act to amend the Companies Act in various particulars.

[*Assented to 24th May, 1918.*]

R.S., c. 79; 1908, c. 16; 1914, c. 23; 1917, c. 25.

HIS Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

Short title.

1. This Act may be cited as *The Companies Act Amendment Act, 1918.*

2. Section seventy-two of the *Companies Act* is hereby repealed and the following substituted therefor:—

Board of directors.

"**72.** The affairs of the company shall be managed by a board of not less than three directors."

3. Section seventy-six of the *Companies Act* is hereby repealed and the following substituted therefor:—

Number of directors. Head office. Sanction of shareholders. Deposit of by-law.

"**76.** The company may, by by-law, increase or decrease to not less than three the number of its directors, or may change the company's chief place of business in Canada: Provided that no by-law for either of the said purposes shall be valid or acted upon unless it is approved by a vote of at least two-thirds in value of the stock represented by the shareholders present at a special general meeting duly called for considering the by-law; nor until a copy of such by-law, certified under the seal of the company, has been deposited in the Department of the Secretary of State of Canada and published in the *Canada Gazette.*"

Statement in lieu of prospectus.

4. Form F, added to the Schedule of the *Companies Act*, by section eighteen of chapter twenty-five of the statutes of 1917, is hereby amended by striking out the fourth paragraph thereof and substituting the following therefor:—

"Minimum subscription (if any) fixed by the letters patent, supplementary letters patent or by-laws on which the company may proceed to allotment."

8-9 GEORGE V.

CHAP. 14.

An Act to Amend the Companies Act.

[*Assented to 24th May, 1918.*]

R.S., c. 79; 1908, c. 16; 1914, c. 23; 1917, c. 25.

HIS Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. The *Companies Act*, chapter seventy-nine of the Revised Statues of Canada, 1906, is amended by inserting immediately after section sixty-nine L thereof as enacted by chapter twenty-five of the statutes of 1917, the following section, which shall be deemed to have come into force on the twentieth day of September, 1917, the date of the commencement of the said chapter twenty-five:—

Quebec notarial copies to be deemed originals.

"Mortgage" to include "hypothec."

"**69M.** A duly certified copy of any deed, mortgage, hypothec or other authentic instrument executed in the province of Quebec and preserved in the records of a notary public of the province of Quebec, or in the office of a prothonotary of the Superior Court in any district of the said province, shall be deemed to be an original deed, mortgage or instrument for the purposes of this Act, and the term 'mortgage' shall include 'hypothec.' "

8-9 GEORGE V.

CHAP. 25.

An Act to amend The Income War Tax Act, 1917.

[*Assented to 24th May, 1918.*]

HIS Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1917, c. 28.

1. (1) Paragraph (*e*) of section two of *The Income War Tax Act, 1917*, chapter twenty-eight of the statutes of 1917, is repealed and the following is substituted therefor:—

Definitions.

"(*e*) "supertax" means the taxes authorized by paragraphs (*b*) to (*m*), both inclusive, of section four of this Act";

(2) Section two of the said Act is amended by adding thereto the following paragraphs:—

"(*h*) "surtax" means the taxes authorized by paragraphs (*n*) to (*q*), both inclusive, of section four of this Act;

"(*i*) "dependent child" means a child under twenty-one years of age and dependent on his parent for support, or over twenty-one years of age and dependent on his parent for support on account of physical or mental incapacity."

Par. relating to payments at source.

2. (1) Paragraph (*b*) of section three of the said Act is repealed and the following is substituted therefor:—

"(*b*) two hundred dollars for each child under sixteen years of age who is dependent upon the taxpayer for support."

Par. (d) of s. 3 amended.

(2) Paragraph (*d*) of the said section three is amended by striking out the words "or from the net earnings" in the third and fourth lines thereof.

3. Subsections one and two of section four of the said Act are repealed and the following are substituted therefor:—

Income tax.

"**4.** (1) There shall be assessed, levied and paid, upon the income during the preceding year of every person residing or ordinarily resident in Canada or employed in Canada or carrying on any business in Canada, the following taxes:

(*a*) two per centum upon all income exceeding one thousand dollars but not exceeding fifteen hundred dollars in the case of unmarried persons and widows or widowers without dependent children, and exceeding two thousand dollars but not exceeding three thousand dollars in the case of all other persons; four per centum upon all income exceeding fifteen hundred dollars in the case of unmarried persons and widows or widowers without dependent children, and exceeding three thousand dollars in the case of all other persons;

and in addition thereto the following supertax:— Supertax.

(*b*) two per centum upon the amount by which the income exceeds six thousand dollars and does not exceed ten thousand dollars; and

(*c*) five per centum upon the amount by which the income exceeds ten thousand dollars and does not exceed twenty thousand dollars; and

(*d*) eight per centum of the amount by which the income exceeds twenty thousand dollars and does not exceed thirty thousand dollars; and

(*e*) ten per centum of the amount by which the income exceeds thirty thousand dollars and does not exceed fifty thousand dollars; and

(*f*) fifteen per centum of the amount by which the income exceeds fifty thousand dollars and does not exceed seventy-five thousand dollars; and

(*g*) twenty per centum of the amount by which the income exceeds seventy-five thousand dollars and does not exceed one hundred thousand dollars; and

(*h*) twenty-five per centum of the amount by which the income exceeds one hundred thousand dollars and does not exceed two hundred thousand dollars; and

(*i*) thirty per centum of the amount by which the income exceeds two hundred thousand dollars and does not exceed four hundred thousand dollars; and

(*j*) thirty-five per centum of the amount by which the income exceeds four hundred thousand dollars and does not exceed six hundred thousand dollars; and

(*k*) forty per centum of the amount by which the income exceeds six hundred thousand dollars and does not exceed eight hundred thousand dollars; and (*l*) forty-five per centum of the amount by which the income exceeds eight hundred thousand dollars and does not exceed one million dollars; and

(*m*) fifty per centum of the amount by which the income exceeds one million dollars;

Surtax.

and in addition thereto the following surtax:—

(*n*) upon income in excess of six thousand dollars but not exceeding ten thousand dollars, five per cent. of the normal tax and supertax payable thereon;

(*o*) upon income in excess of ten thousand dollars but not exceeding one hundred thousand dollars, ten per centum of the normal tax and supertax payable thereon;

(*p*) upon income exceeding one hundred thousand dollars but not exceeding two hundred thousand dollars, fifteen per centum of the normal tax and supertax payable thereon;

(*q*) upon income exceeding two hundred thousand dollars, thirty-five per centum of the normal tax and supertax payable thereon.

Corporation income tax.

"(2) Corporations and joint stock companies, no matter how created or organized, shall pay six per centum upon income exceeding three thousand dollars, but shall not be liable to pay the supertax or surtax; and the Minister may permit any corporation or joint stock company the fiscal year of which is not the calendar year, to make a return and to have the tax payable by it computed upon its income for the twelve months ending with its last fiscal year preceding the date of assessment."

Exemptions from tax.

4. Section five of the said Act is amended by adding thereto the following paragraph:—

"(*k*) the income of incorporated companies whose business and assets are carried on and situate entirely outside of Canada."

Payment of tax at source.

5. Section six of the said Act is repealed.

Returns by agents, etc.

6. Subsection four of section seven of the said Act is amended by inserting after the word members in the sixth line thereof the following:—"and all persons in whatever capacity acting, having the control, receipt, disposal or payment of fixed or determinable annual or periodical gains, profits or income of any taxpayer, shall make and render a separate and distinct return to the Minister of such gains, profits or income, containing the name and address of each taxpayer."

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The Publication Committee will be pleased to receive contributions on subjects of interest. Papers which may not be deemed suitable will be returned, if desired.

All communications to be addressed to "The Canadian Chartered Accountant," 518 Continental Life Building, Toronto, Ont.

DEMOCRACY MUST LIVE.

NEVER have changes so violent, so tremendous, in the structure of national, business and social life, heaved up the very foundations of the world. Never have so many problems, so many demands thrust themselves upon men and women for settlement. Things big with fate are happening fast. Democracy and autocracy have come to death grips. One or the other must succumb. The call for action is constant, imperative. It is the task of civilization to put an end to Prussianism and that end must surely come, for the Supreme Ruler of the Universe could not decree otherwise. There is no cause for disheartenment, the darkest day has been met by brave, determined purpose, and victory is on the horizon.

AMENDMENTS TO BUSINESS LAWS.

ELSEWHERE in this issue will be found full texts of amendments to the Business Profits War Tax Act, the Dominion Companies Act and the Income War Tax Act, passed at the last session of Parliament. As there are important changes, the amending Acts should be carefully noted.

DOMINION ASSOCIATION MEETING.

THE 16th Annual Meeting of the Dominion Association of Chartered Accountants, which will be held in Montreal on the 18th, 19th and 20th of September next, promises to be of particular interest and value to the profession and all members who possibly can, should be there. In addition to the special papers and discussions promised, several matters of internal interest will come up for settlement. Plans are also being made for the social entertainment of the members and visiting ladies, including a boat trip down the St. Lawrence and a full day for sight-seeing in old Quebec.

Business and Income Tax Acts.

Mr. Breadner, the very able Commissioner of Taxation for the Dominion, has kindly consented to read a paper on taxation questions and discuss with the members, problems that have arisen in connection with the Business Profits and Income Tax Acts.

Joint Stock Company Law.

Members will be much interested and pleased to learn that Mr. Thomas Mulvey, K.C., Under-Secretary of State for Canada, will also be present and will give an address on "Joint Stock Company Law," with special reference to the "Bonanza Case."

Municipal Accounting.

Mr. Harvey S. Chase, C.P.A., of Boston, Mass., a leader in the profession of accountancy in the United States, will read a paper on the important subject of municipal accounting.

Headquarters of the Convention will be the Ritz-Carlton, Hotel, 580 Sherbrooke Street West.

Mr. A. E. Middleton Hope, C.A., 263 St. James Street, chairman of the Publicity Committee, will be pleased to afford any further information.

STOCK INVENTORIES.

THE accountancy profession generally, have always accepted the principle that stocks of all kinds should be valued on the basis of cost price, or market value, whichever is the lower. This principle has also been recognized by the British and Dominion Governments as a general principle, when considering the valuation of stocks for taxation purposes. It is the practice of auditors to satisfy themselves, as far as possible, that such a basis is adopted in valuing stocks for Balance Sheet purposes, but wherever substantial under-valuations have been made, it is the auditor's duty to point out the matter in his report, unless the amount is separately stated in the Balance Sheet.

No greater opportunity for self-deception and unwise inflation is presented than in the taking of inventories. No matter how far above cost the replacement value of the merchandise has gone, it should be inventoried at cost.

If depreciation has occurred in the merchandise, or it could be replaced at less than cost, then the inventory should be taken at the replacement value and not at cost prices. Some may say, Why should not the rule work both ways? In the first place, to inventory the merchandise at replacement value and not at cost, when advances have occurred would be assuming a profit that has not been earned. Again, to inventory the merchandise at cost when its value has declined or deterioration has occurred is simply postponing a loss that is inevitable.

ONTARIO BULK SALES ACT.

THIS Act, which comes into force on October 1st, 1918, is designed to prevent the transfer or sale of stocks of merchandise or chattels for the purpose of defrauding creditors.

Briefly, the Act requires that whenever a sale is made of goods, wares, merchandise or chattels out of the ordinary course of business, the creditors of the vendor are to be paid in full out of the proceeds of such sale, otherwise the sale is void, unless certain alternative provisions are complied with.

First, the purchaser must, before paying any money, or delivering any notes or securities to the vendor (except a sum not exceeding $50.00, which may be paid to bind the deal), secure from the vendor a verified list of his creditors; the Act may then be waived by securing the consent of creditors representing 60% in number and value of the claims of $50.00 and over. Should it be decided not to ask the creditors for their consent, or should they refuse consent, then the purchaser, to protect himself, must deposit the purchase monies, notes or securities with a trustee, for the purpose of distribution upon a pro rata basis (subject to any legal preference) among the creditors of the vendor, the costs and charges of such distribution to be born by the creditors.

The purchaser is free from any responsibility for the liabilities of the vendor, if these provisions are carried out, or if the creditors are paid in full out of the proceeds of the sale. Creditors attacking the sale must do so within 60 days.

For full text of Act see October, 1917, magazine.

CALCULATING THE INCOME TAX.

THERE are three good reasons why you should seek to master the operative principles of the amended Income Tax Act: First, because it is so wide in its application, and brings within its scope many who are exempt at the present time. Second, because it is a complicated measure, not readily understood; and third, because it is likely to continue in operation for a long time. The rising burden of war cost makes extraordinary taxation imperative, and it is probable that if peace was declared to-morrow there would be no escape from such taxation for years to come. The amended tax will be based on 1918 incomes, and will not be payable until 1919. In calculating the tax the following should be kept in mind:—

Unmarried persons and widows and widowers without dependent children are exempt up to $1,000. All other persons are exempt up to $2,000. Corporations and joint stock companies are exempt up to $3,000. An exemption of $200 is allowed for each child under 16 years of age who is dependent upon the taxpayer for support.

On an income under $6,000 there is only the normal tax, this being on a 2 and 4 per cent. basis. Over $6,000 there are three taxes: Normal, which is always 4 per cent., and supertax and surtax, which are on a rising scale.

The surtax is a tax on the taxes. It is reckoned on the sum of the normal and supertax on all incomes exceeding $6,000.

Bearing these points in mind, the following calculations may be made:—

Unmarried Persons.

On income, $1,000 to $1,500. Exempt $1,000 and tax remainder 2 per cent.

On income, $1,500 to $3,000. Exempt $1,000; tax, $500 at 2 per cent. and the balance at 4 per cent.

On income over $3,000 an unmarred person will in every case pay exactly $50 more than a married person. Take calculations for married persons and add $50.

Married Persons (no Children).

On income up to $3,000. Exempt $2,000 and tax remainder 2 per cent.

On income $3,000 to $6,000. Exempt $2,000; tax, $1,000 at 2 per cent. and the balance at 4 per cent.

Example:—

Exempt	$2,000	....
Normal tax, 2 per cent. on.........	1,000	$ 20
Normal tax, 4 per cent. on.........	3,000	120
Married person's tax on...........	$6,000	$140

Incomes over $6,000 are subject to three taxes, known as normal, supertax and surtax. They are calculated as follows:—

On income (married) over $6,000 up to $10,000:

Take tax on first $6,000 (as above), $140 (no children).
Add normal tax.. 4 per cent. on income over $6,000.
Add supertax.... 2 per cent. on income over $6,000.
Add surtax...... 5 per cent. on sum of above two taxes.

On income (married) over $10,000 up to $20,000:

Take tax on first $10,000 (on above basis), $392 (no children).
Add normal tax.. 4 per cent. on income over $10,000.
Add supertax.... 5 per cent. on income over $10,000.
Add surtax...... 10 per cent. on sum of above two taxes.

On income (married) over $20,000 up to $30,000:

Take tax on first $20,000 (on above basis), $1,382 (no children).
Add normal tax.. 4 per cent. on income over $20,000.
Add supertax.... 8 per cent. on income over $20,000.
Add surtax...... 10 per cent. on sum of above two taxes.

On income (married) over $30,000 up to $50,000:

Take tax on first $30,000 (on above basis), $2,702 (no children).
Add normal tax.. 4 per cent. on income over $30,000.
Add supertax.... 10 per cent. on income over $30,000.
Add surtax...... 10 per cent. on sum of above two taxes.

On income (married) over $50,000 up to $75,000:

Take tax on first $50,000 (on above basis), $5,782 (no children).
Add normal tax.. 4 per cent. on income over $50,000.
Add supertax.... 15 per cent. on income over $50,000.
Add surtax...... 10 per cent. on sum of above two taxes.

On income (married) over $75,000 up to $100,000:

Take tax on first $75,000 (on above basis), $11,007 (no children).
Add normal tax.. 4 per cent. on income over $75,000.
Add supertax.... 20 per cent. on income over $75,000.
Add surtax...... 10 per cent. on sum of above two taxes.

On income (married) over $100,000 up to $200,000:

Take tax on first $100,000 (on above basis), $17,607 (no children).
Add normal tax.. 4 per cent. on income over $100,000.
Add supertax.... 25 per cent. on income over $100,000.
Add surtax...... 15 per cent. on sum of above two taxes.

On income (married) over $200,000 up to $400,000:

Take tax on first $200,000 (on above basis), $50,957 (no children).
Add normal tax.. 4 per cent. on income over $200,000.
Add supertax.... 30 per cent. on income over $200,000.
Add surtax...... 35 per cent. on sum of above two taxes.

On income (married) over $400,000 up to $600,000:

Take tax on first $400,000 (on above basis), $142,757 (no children).
Add normal tax.. 4 per cent. on income over $400,000.
Add supertax.... 35 per cent. on income over $400,000.
Add surtax...... 35 per cent. on sum of above two taxes.

On income (married) over $600,000 up to $800,000:

Take tax on first $600,000 (on above basis), $248,057 (no children).
Add normal tax.. 4 per cent. on income over $600,000.
Add supertax.... 40 per cent. on income over $600,000.
Add surtax...... 35 per cent. on sum of above two taxes.

On income (married) over $800,000, not exceeding $1,000,000:

Take tax on first $800,000 (on above basis), $366,857 (no children).
Add normal tax.. 4 per cent. on income over $800,000.
Add supertax.... 45 per cent. on income over $800,000.
Add surtax...... 35 per cent. on sum of above two taxes.

On income (married) over $1,000,000:

Take tax on first $1,000,000 (on above basis), $499,157 (no children).
Add normal tax.. 4 per cent. on income over $1,000,000.
Add supertax.... 50 per cent. on income over $1,000,000.
Add surtax...... 35 per cent. on sum of above two taxes.

Unmarried persons and widows and widowers without dependent children pay $50 more on total tax than married persons.

Company Taxes.

Corporations and joint stock companies, no matter how created or organized, must pay 6 per centum upon income exceeding $3,000, but will not be liable to pay supertax or surtax; and the Minister may permit any corporation or joint stock company, the fiscal year of which is not the calendar year, to make a return and have the tax payable by it computed upon its income for the twelve months ending with its last fiscal year preceding the date of assessment.

The income of incorporated companies whose business and assets are carried on and situate entirely outside of Canada is exempt from taxation.

UNIFORM LAWS FOR PROVINCES.

A MEETING of the Council of the Canadian Bar Association was held in Montreal a short time ago, with representatives from nearly every province present. Sir James Aikens presided, and in welcoming the members informed them that the following provinces have passed, or are about to pass, statutes, under which official commissioners on uniform provincial laws will be appointed, namely: Manitoba, Ontario, Alberta, Nova Scotia and New Brunswick, and he expressed the hope that the other provinces will do likewise.

The following committees presented reports, which were received and directed to be laid before the next annual meeting of the Association, namely, those on Company Law, Insurance, Insolvency, Succession Duty, Legal Education, Administration of Justice and Legal Procedure and Foreign Judgments. The insurance Committee has drafted a Model Fire Insurance Policy Act, which is to be distributed among underwriters and Insurance Departments for consideration. The insolvency report is to be forwarded to the special committee of Parliament now dealing with that subject. Interesting discussions took place during the day's proceedings on the Insolvency Bill now before Parliament, on Judges' salaries and double taxation under succession duty statutes.

DELINQUENTS.

Slow payment of renewals—those on which repeated efforts to collect must be made—result in waste of time, money and labor. Most subscribers pay their renewals promptly, but there are always some who forget—"Nuf sed."

PERSONAL.

Messrs. Stirling & Rankin, Winnipeg, have pleasure in announcing that Mr. Thos. W. Saul, C.A., who has practised his profession in partnership with Mr. E. V. Chaplin, C.A., under the style of Saul & Chaplin, C.A., has become a partner in their firm, the former partnership being dissolved. The business of the new firm will be conducted under the name of Stirling, Rankin & Saul, at 349-357 Grain Exchange and also at the Northern Crown Bank Building.

Messrs. Fred. C. Gilbert and W. C. Laird, Winnipeg, announce the formation of a co-partnership under the firm name of Gilbert & Laird, Chartered Accountants, with offices at 909 Electric Railway Chambers.

THE LATE A. T. NIVEN, C.A.

The Edinburgh Society mourns the loss of its most venerable member, Mr. A. T. Niven, whose death took place on 19th March. He had attained a great age, and was the last survivor from among those who originated and formed the Society of Accountants in Edinburgh, which was incorporated by Royal Charter in 1854. In the course of his lengthened career he had an extensive professional practice, and held many important appointments, honorary and otherwise. He continued actively at business until within a few days of his death, resulting from a very brief illness.

His only son, Mr. John B. Niven, C.A., is a partner in the firm of Touche, Niven & Co., New York. Sir George Touche, M.P., the head of the firm, received his training in Mr. Niven's office, whence he went to London, where he has attained a prominent position.

Mr. Niven was a man of most genial, kindly and generous disposition, ever held in affectionate esteem by those who knew him, not excluding such as may have differed widely from his views on certain subjects. The removal of his familiar presence will leave a blank in a large circle.

THE LATE RICHARD BROWN, C.A.

We regret to announce the death of Mr. Richard Brown, President of the Society of Accountants in Edinburgh, which took place suddenly on the 24th of May. Mr. Brown was 61 years of age and was principal of the firm of Messrs. Richard Brown & Co., Chartered Accountants, 23 St. Andrew's Square, Edinburgh. For many years he held the office of Secretary to the Edinburgh Society, which received its charter of incorporation in the year 1854, and is the oldest body of organized accountants in the world. The late Mr. Brown took great interest in the jubilee of the Edinburgh Society in 1904 and in connection therewith edited and partly wrote "The History of Accounting and Accountants," which is regarded as the standard work on the subject. He will be greatly missed by his brother professionals in Scotland.

STILL WANTED.

July, 1911; October, 1911; January, 1915.

Several subscribers wanting to bind their magazines are short some of these numbers.

Any man who is satisfied with himself doesn't want much.

Dominion Association of Chartered Accountants

OFFICERS 1917-1918

President:

JOHN HYDE .. .. Montreal, Que.

Vice-President:

ARTHUR C. NEFF .. .. .. Toronto, Ont.

Secretary-Treasurer:

ROBERT WILSON, Jr. ... .. Montreal, Que.

COUNCIL

REPRESENTATIVE	ELECTED BY
F. W. Sharp, Montreal, Que. John Hyde, Montreal, Que.	The Association of Accountants in Montreal.
R. J. Dilworth, Toronto, Ont. Arthur C. Neff, Toronto, Ont. Bryan Pontifex, Toronto, Ont.	The Institute of Chartered Accountants of Ontario.
John Parton, Winnipeg, Man. F. C. S. Turner, Winnipeg, Man.	The Institute of Chartered Accountants of Manitoba.
T. L. E. Piers, Halifax, N.S.	The Institute of Chartered Accountants of Nova Scotia.
A. H. Edwards, Vancouver, B.C. W. E. Hodges, Vancouver, B.C.	The Institute of Chartered Accountants of British Columbia.
F. J. Wilson, Regina, Sask. A. W. Goldie, Regina Sask.	The Institute of Chartered Accountants of Saskatchewan.
W. H. A. Thompson, Calgary, Alta. W. W. Gould, Edmonton, Alta.	The Institute of Chartered Accountants of Alberta.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO.

(Incorporated 1883.)

T. Watson Sime, President. Arnold Morphy, Secretary.
W. J. Valleau, Registrar.

The Institute examinations were held as formerly at the University of Toronto on the 15th, 16th and 17th of May last, at which 26 Final, 14 Intermediate and 25 Primary candidates wrote. The following candidates were successful:—

Final Examination: Gordon V. Draper, Thomas P. Geggie, Nelson B. Gerry, Frank P. Gibbs, Harvey E. Guilfoyle, Melvin Hilborn, James S. Hume, Thomas E. Lawless, Jai V. Mapp, Andrew M. Milne, Stewart H. Sorley, A. F. Soutar, Herman A. Stephens.

Intermediate Examination: L. W. Archer, Douglas S. Erb, George F. Glatt, T. B. Godfrey, R. R. Grant, F. C. Martin, W. C. Metherell, A. E. Randall, John F. Robins.

Primary Examination: Eric J. Black, O. R. Cosburn, W. F. Coutts, John S. Cowing, James D. Cunningham, J. A. Falk, N. K. Fredenburg, W. F. Hill, A. L. Hoar, J. W. G. Meerstadt, C. J. Monahan, W. E. McBain, S. E. Nicholson, C. A. Patterson, Douglas J. Sales, W. B. Taylor, L. C. Teskey. A. C. Thompson, Frederick Trant, E. W. Vanstone, A. W. Walker.

Past Presidents' Scholarships—Final: Frank P. Gibbs. Intermediate: T. B. Godfrey. Primary: J. D. Cunningham.

Institute Scholarships—Final: Nelson B. Gerry. Intermediate: F. C. Martin. Primary: John S. Cowing.

Mr. G. G. Rowbotham, Toronto manager of Messrs. Price, Waterhouse & Co., a member of the Institute of Accountants and Actuaries in Glasgow, and of the Institute of Chartered Accountants of Manitoba, was elected a member on 24th April last.

Mr. William C. Benson, Toronto, a former member of the Institute, was reinstated to membership on 24th April.

The Annual General Meeting of the Institute will be held in the Temple Building, corner Bay and Richmond Streets, Toronto, on Saturday morning, July 20th.

At the Annual Meeting of the Chartered Accountants' Students' Association, held at the Central Y.M.C.A., the following officers were elected for the ensuing year: Past president, J. D. McNabb, C.A.; president, Earl A. Seburn; vice-president, J. V. Mapp, C.A.; secretary-treasurer, A. J. P. Care (15 Wellington Street West, Toronto); librarian, W. T. Titley.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NOVA SCOTIA.

(Incorporated 1900.)

J. R. Blackett, President. G. Wallace Dickson, Secretary.

At a recent meeting of the Council the report of a committee appointed to draft a scale of fees for seniors, clerks and court attendance was unanimously adopted and will be circulated among the members.

The question of granting reciprocal relations to the Institutes of the Antipodes was discussed but not disposed of finally.

The drafts under the Military Service Act have greatly inconvenienced many of our members by the calling of the younger men. Much additional work has been rendered necessary by the short-handedness of our clients.

Several members are already arranging their work so as to enable them to attend the annual D.A.C.A. meeting in Montreal.

G. H. Holder, one of our members, after nearly four years on active service, has been released and has joined the staff of Major Edwards, the Provincial Income War Tax Inspector, where we know he will render valuable service.

We regret to learn that P. L. McNeil, another of our members, but now of Vancouver, was not benefited to so great an extent as we had all hoped, by his winter spent in California.

It will be a matter of gratification to the membership to know that when No. 7 Stationary Hospital, C.E.F., Dalhousie Unit, "Somewhere in France," suffered so severely by the recent Hun air raid that our former D.A.C.A. Secretary, Staff-Sergeant L. A. Woodin, escaped uninjured.

For the examinations written during the latter part of June there were six candidates—four Preliminary, one Intermediate and one Final.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BRITISH COLUMBIA.

(Incorporated 1905.)

Geo. E. Winter, Secretary.

The Examinations of the Institute were held on May 28th, 29th and 30th, 1918. Five candidates presented themselves for the Intermediate and five for the Final Examination. Three of those trying the Intermediate were successful, as follows: W R. Watson, A. L. Hardy and S. F. Hobbs, and two Final men were successful, namely, W. Griffiths and T. N. Bland.

The Council, by resolution, expressed appreciation of the papers submitted by Messrs. Watson and Griffiths, and prizes are to be awarded to these successful candidates.

It has been decided to hold the Annual Meeting of the Institute on Wednesday, July 17th. A luncheon will be tendered the members, after which the business of the meeting will be transacted.

Mr. Gordon Tansley, President of the Institute, before leaving for Montreal in April last, was presented by his fellow members in the Council with an engraved cigarette case, as a slight token of their appreciation of his services to the Institute during the past two years.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SASKATCHEWAN.

(Incorporated 1908.)

F. J. Wilson, President. Thomas Lax, Secretary.

The annual Meeting of the Saskatchewan Institute was held on Friday, May 31st, 1918, at the Board of Trade rooms, Regina. Some twenty members were present and much important business was dealt with. The President's address gave a resumé of the activities of the Council during the year, explained the reasons for the change in the by-laws, and asked the meeting's approval of the Council's action. He also asked for a discussion of the Income Tax Act and a proposed new tariff of fees.

The ratification of the amendments made to the by-laws by the Council during the year was one of the first matters taken up. These amendments provided for a change regarding examinations, the same to be put in the hands of the University Board of Examiners. After a lengthy discussion the action of the Council was upheld.

The auditor's report was presented and showed that the Institute was improving financially, having liquidated a debt of $500.00 during the year and was now showing a larger surplus.

Mr. Hodge, one of the delegates to the Dominion Convention held at Banff last year, presented a report giving an account of the proceedings, etc.

The afternoon session opened with a paper on "Mine Accounting," by Mr. A. G. Garrish, of Estevan. The paper was full of interest and brought much discussion.

The Council reported that Messrs. Rooke, Masecar and Goldie were eligible for election as Fellows. A ballot was taken and found favorable and the above-named members were declared elected Fellows of the Institute.

During the afternoon, Mr. Dale, of Weyburn, one of the charter members of the Institute, on behalf of the members, presented Mr. Grant with a camera. Mr. Grant is also a charter member and has been an active worker since the Institute was formed, he having been secretary for eight years and connected with the Examining Board up to the present year. He is leaving to take up his residence at the Coast. The best wishes of all the members go with him. The incident is recorded on minutes as follows: "That this meeting expresses its appreciation of the efficient and correct services given by Mr. Thomas Grant to this Institute since its origin. It is with extreme regret that we learn he has decided to leave the province and we sincerely hope that success may attend his new venture."

The matter of fees, as brought to the attention of the meeting by the President, was considered and the general feeling was that at present the charges were low, and the Council was instructed to raise the sum.

A decision was also arrived at to award scholarships to assist students in their Intermediate and Final preparation. A sum of $100.00 is to be awarded annually, the details of which are left to the incoming Council.

A vote of condolence was passed expressing the sympathy of the Association with the relatives and friends of the late J. S. Mowat, of Saskatoon, who recently passed away.

The election of officers resulted as follows: President, F. J. Wilson, Regina; vice-president, C. E. Walker, Regina; secretary, Thos. Lax, Regina; Council, J. Nelson, Saskatoon; A. W. Goldie, Regina; A. G. Garrish, Estevan; S. G. Lowthian, Regina; auditors, F. G. Hopper, Regina, S. G. Lowthian, Regina. Delegates to Dominion Association, F. J. Wilson, Regina; A. W. Goldie, Regina.

The University Board of Examiners met at Saskatoon on May 28th, 1918, and at the close of the session announced that G. E. Baskie, J. W. Rosborough, T. E. Robinson, R. Read, R. Cheyne and R. E. Stephens had passed the Final Examinations.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ALBERTA.

(incorporated 1910.)

Cecil E. Race, President. W. W. Gould, Secretary.

On Saturday, 25th May, the Annual Meeting of the Institute of Chartered Accountants of Alberta was held in the Senate Chamber of the University of Alberta. The President gave a short report of the work of the Institute for the past year, referring briefly to the D.A.C.A. at Banff. This was supplemented by fuller reports from the appointed delegates. The financial statement showed that the Institute now holds $1,200 of Dominion War Bonds.

At the April Examinations there were 40 candidates, 20 writing on the Final and 10 on the Intermediate. Of these, seven final candidates and four intermediate were successful. The successful final candidates who were then admitted to membership in the Institute were: R. H. G. Gemmell, Edmonton; S. Russell Reid, Edmonton; T. Percy Hill, Calgary; William Ireland, Calgary; E. A. Irwin, Calgary (with honors); Alberta

Moss, Calgary; Andrew L. Stevens, Calgary. In addition to these, F. Martyn Oliver, Medicine Hat, was admitted to membership. Mr. Oliver is a member of the firm of O. J. Godfrey & Co. and was formerly a member of the Saskatchewan Institute.

The successful candidates in the Intermediate examination were: J. S. Fidler, Calgary; A. C Hansen, Calgary; P. B. Rose, Edmonton; John W. Watson, Calgary (with honors).

The prize of $10 in gold for the highest standing in the Final Examination went to E. A. Irwin, who last year won this prize at the Intermediate Examination. The prize at the Intermediate Examination this year was won by John W. Watson.

Two questions which created considerable discussion were Advertising by Chartered Accountants, and a Tariff of Fees.

An amendment to the by-law relating to the composition of the Council was ratified whereby at least two-thirds of the Council shall be practising public accountants.

Arrangements have now been completed with the Students' Associations in Edmonton and Calgary to co-operate with the Institute in the establishment and maintenance of good libraries in each city. The Library Committee in each city consists of two members of the Institute and one from the Students' Association. For Edmonton: W. Dixon, Ed. D. C. Thomson, with E. W. Dunn as named by the students. For Calgary: J. B. Sutherland, W. H. A. Thompson, with T. Percy Hill named by the students.

Elections for the ensuing year resulted in the return of the old council, which after organization the officers were reported as follows: President, Cecil E. Race; 1st vice-president, J. B. Sutherland; 2nd vice-president, H. C. Anderson; secretary-treasurer, W. W. Gould; councillors, H. C. Anderson, W. W. Gould, D. A. McCannel, Cecil E. Race, J. B. Sutherland, W. H. A. Thompson, Ed. D. C. Thomson.

The newly elected president will be the representative of the Institute on the Senate of the University of Alberta.

Messrs. W. H. A. Thompson and W. W. Gould were elected delegates to attend the annual convention of the D.A.C.A. to be held in Montreal in September.

LIST OF MEMBERS OF THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS, TOGETHER WITH ASSISTANTS, ON ACTIVE SERVICE EITHER AT HOME OR ABROAD.

Association of Accountants in Montreal.

Geo. A. Touche and Co.

Lieut. Alastair A. Gowan, C.A. (Scot.), 128th (Oxfordshire) Heavy Battery, R.G.A., B.E.F., France.

Lieut. William E. Tibbs, R.F.A. We do not know the number of Mr. Tibb's battery, but we believe he has been in France for some time.

Riddell, Stead, Graham and Hutchison.

Assistants.

Capt. F. S. Mathewson (went as Private), 13th Batt., 3rd Infantry Brigade, First Canadian Contingent, C.E.F. (Wounded June, 1916.)

Pte. Robert C. Ross, No. 65853 (C.A., Scotland), "B" Co., 24th Batt, C.E.F., bomb-thrower. (Wounded June, 1916.)

Pte. N. W. Davidson, No. 1964, "C" Section, 6th Field Ambulance, Army Service Corps.

Gunner Wilfred Gray, No. 302971, 3rd Canadian Siege Battery, C.E.F.

J. H. Weir (C.A., Scotland), Kitchener's Army.

Sergt. J. M. Dever, 245th Batt., C.E.F. (Grenadier Guards).

Winnipeg Office—Member of Firm.

Joseph Bell (C.A., Edinburgh and Manitoba), Captain and Quartermaster, 179th Battalion, C.E.F.

Assistants.

Lieut. F. J. Watson (C.A., Scotland), 43rd Batt., C.E.F., Cameron Highlanders of Canada. (Killed in Action.)

Co. Sergt.-Major G. F. Burton, 44th Batt., C.E.F.

Pte. James M. Dunwoody, D.C.M., Trooper, Strathcona Horse.

Sergt. Peter Reid, 27th Batt., C.E.F.

Lance-Corpl. G. H. Wright, 8th Batt., C.E.F.

P. Tollemache, enlisted in B.E.F.

Pay Sergt. James McClure, C.A., 11th Field Ambulance, C.E.F.

Lieut. W. H. King, 144th Battalion, C.E.F.

W. A. Gould, 76th Battery, C.E.F.

John Kell, Imperial Flying Corps.

Vancouver Office—Assistants.

Lieut. Malcolm A. Bright, Signal Corps, Royal Engineers.
Lieut. R. K. McRoberts, 9th Black Watch, B.E.F.
Lance-Corpl. H. W. George, Lewis Gun School, C.E.F., France.
Bom. Sergt. N. H. Peters, 72nd Battalion, C.E.F.
Sergt. J. L. Taylor, 231st Battalion, C.E.F.

Toronto Office—Assistant.

Sergt.-Major J. C. Fyfe, Machine Gun Section, 166th Batt., Q.O.R.

Casualties—Montreal Office.

Pte. H. L. Dupuy, First Contingent. Killed in action.
Pte. J. G. Kennedy, 5th Platoon, "B" Co., 24th Batt., C.E.F. Killed in action, June, 1916.
Lieut. C. Blair Wilson, 42nd Batt., C.E.F. Killed in action.
Sergt. J. S. Cunningham, 73rd Batt., C.E.F. Killed in action.

Price, Waterhouse and Co.

(List of members serving.)

Montreal Office.

Pte. James W. Taylor.

Winnipeg Office.

Capt. George Somerville Craggs.

Vancouver Office.

Capt. William Charles, Capt. George E. Vaughan.

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Lieut.-Col. L. A. Dowie, Chief Auditor, Pay and Record Office, Canadian Overseas Forces.

Winnipeg Branch.

Capt. Thos. Law (Manager), Paymaster, 44th Batt., C.E.F.
Lieut. A. E. Phillips (Manager), 90th Batt., C.E.F., Winnipeg Rifles.

Staff.

Major Eric B. Finley, 42nd Batt., C.E.F. Wounded; shortly returning to the Front.
Major G. P. Dunlop, 60th Batt., C.E.F. Wounded; since returned to the Front.
Lieut. Ian A. Ross, 73rd Batt., C.E.F.
Leslie G. Proctor, 3rd (Canadian) Siege Battery.
J. Charles Grant, 3rd (Canadian) Siege Battery.
Gordon C. Barclay, originally with the 148th Batt., C.E.F., has been wounded, and is now with the 42nd Batt., C.E.F.
H. F. Costigan, 148th Batt., C.E.F.
M. R. Leroy, 199th Batt., C.E.F.

Ernest H. Copeland, Brock's 66th Battery, C.F.A.

David Bruce, "C" Battery, C.F.A.

G. J. Maguire, 7th Brigade, C.F.A.

Leslie A. Brooks, 3rd Overseas Draft, Siege Artillery.

J. A. Shaw, 3rd Overseas Draft, Siege Artillery.

W. Leslie Gatehouse, 3rd Overseas Draft, Siege Artillery.

Geo. D. Ross, 3rd Overseas Draft, Siege Artillery.

George C. McDonald and Co.

Capt. George C. McDonald, M.C., Princess Patricia Canadian Light Infantry.

Capt. George S. Currie, M.C., Princess Patricia Canadian Light Infantry.

Fisk, Skelton and Co.

Lieut. M. O. Haskell, Royal Field Artillery.

Pte. C. K. R. Dempster, British Army (corps not known).

Pte. W. R. Bradford First Reinforcement, Canadian Siege Artillery (Col. Cole).

Pte. J. M. Keddie, training at Toronto for active service.

Cadet Gordon S. Payne, Imperial Flying Corps. (Training for overseas.)

John Hyde.

Assistant.

Lieut. Charles E. Hyde, 13th Batt., C.E.F.

John McD. Hains.

Assistant.

Douglas McD. Hains, 24th Batt., C.E.F. Wounded three times and now returned to Canada; convalescing pending discharge.

E. B. Savage and Co.

Lieut. E. B. Savage, "C" Battery, R.C.H.A.

Capt. H. M. Savage, 27th Batt.

Trooper W. Pearson, Canadian Mounted Rifles.

Assistants.

W. Forbes.

A. Stormont.

Gonthier and Midgely.

Sub. Flight Lieut, Henri G. Gonthier, B. Flight, 8th Squadron, 4th Wing at Netheravon, Wiltshire, Eng.

Vicomte Jean de la Tour Fondue, who left our staff to join the French Army, in which he was an officer, was killed whilst leading his men in a charge against the Germans near Souchez. He was later cited in the "Orders of the Day" for bravery and decorated with the War Cross.

A. F. Mitchell.

Assistant.

Pte. William Preddy, 73rd Batt., C.E.F.

Creak, Cushing and Hodgson.

E. M. DeCourcy, 42nd Batt.
Gr. H. L. Miller, 3rd Canadian Siege Battery.

Robson, Ritchie and Co.

Lieut. J. H. Davey, 155th Batt., C.E.F.
Pte. C. B. Brown, King Edward's Horse.
Bombdr. J. Robson, Jr., 66th Artillery (Canadian).
Pte. G. McBoyle, 66th Artillery (Canadian).
Pte. Peter Laing, Royal Canadian Horse Artillery.
Pte. Ralph Willoughby, McGill University Siege Artillery Draft.

Macintosh, Cole and Robertson.

Assistants.

Capt. and Adjt. O. P. Beeman, 2/5th Batt., K.O., Yorkshire Light Infantry.
Lieut. A. E. Ladler, 50th Batt., C.E.F.
2nd Lieut. H. Spanner, Royal Flying Corps, C.E.F.
Lieut. W. J. Hyde, Third Overseas Battery, Siege Artillery, C.E.F.
Lance-Corpl. W. E. Smith, 42nd Batt. (Royal Highlanders of Canada, C.E.F.).
Lieut. A. L. Sanders, 242nd Forestry Battalion, C.E.F.
Trooper E. A. C. Herbert, 12th C.M.R., C.E.F.
Pte. H. S. Peters, Cycle Corps, C.E.F.
Gunner J. W. Pyke, Jr., Third Overseas Battery, Siege Artillery, C.E.F.
Pte. C. E. Booth, 60th Batt., Infantry, C.E.F.
Gunner J. C. Bowles, Third Overseas Battery, Siege Artillery, C.E.F.
Pte. C. N. Winter, Divisional Signalling Corps.
Lance-Corpl. C. N. Winter, Divisional Signalling Corps, C.E.F.
Pte. Martin Bove, C.E.F.
Lance-Corpl. J. G. M. Urquhart, 4th Army Medical Corps, C.E.F.
Sergt. D. C. MacLeod, 4th Divsnl. Ammunition Column, C.E.F.

Marwick, Mitchell, Peat and Co.

Assistants.

Pte. H. B. Eccles, 24th Batt., Infantry, C.E.F.
Pte. E. P. Christain, No. 6. McGill Siege Battery, C.E.F.

Ernest F. Wurtele.

Lieut.-Colonel Ernest F. Wurtele, commanding 19th Infantry Brigade, Canadian Militia, Government Chartered Accountant (in connection with the Ross Rifle Co.) (Ever since the commencement of the war my whole time has been taken up in connection with the manufacture of rifles.)

Robert Miller and Co.

Lieut. Bruce C. Macfarlane, served with 60th Batt. at front. Killed in action, 3rd of June.

Robert Wilson, serving in France with the Montreal Siege Co.

Sharp, Milne and Co.

Harold Webster, Lieut. Royal Naval Flying Corps, C.E.F.

Baker, Birnie and Co.

James D. Hutchison, 245th Battalion, C.E.F.

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Walter W. Rathie & Co.

G. O. A. Brown, Cadet, Royal Flying Corps.

Percy Smithers, Heavy Siege Artillery.

Wilson, Ferrie and Co.

Lieut. Richard Ferrie, 1st Depot Battalion, 1st Quebec Regiment.

The Institute of Chartered Accountants of Ontario.

Members of the Institute.

Allen L. A., Princess Patricia's Canadian Light Infantry.
Baldwin, H. W., Lieut. Canadian Mounted Rifles.
Cherry, H. M., Lieut. 1st Canadian Expeditionary Force.
Cowell, P. S., British Expeditionary Force.
Craig, W. H,, Major 59th Batt. C.E.F.
Crowell. H. E., 85th Batt., C.E.F.
Dawson, Capt. P. H. B., 119th Batt., C.E.F.
Edwards, A. Geoffrey, Army Service Corps, C.E.F.
Edwards, Oswald N., Army Service Corps, C.E.F.
Fisher, A. M., Lieut. 13th Batt. C.E.F.
Gordon, H. D., Lieut.-Col. 4th Can. Mounted Rifles.
Hughes, John, Lieut. British Expeditionary Force.
Jackson, J. A., 47th Batt., C.E.F.
Leishman, E. J., Lieut. 166th Batt., C.E.F.
Miller, A. A., Royal Field Artillery, T.F.
Rumble, I. A., Sergt. 133rd Batt., C.E.F.
Shiell, Major Robt., 134th Batt., C.E.F.
Stiff, Geo. U., Major, 164th Batt. C.E.F.

Casualties:

Eddis, A. G., Lieut. 3rd Batt. C.E.F. Killed in Action.
Pillow, G. T., Cyclist Corps, C.E.F. Killed in Action.

Students.

Anglin, J. T., Lieut. 3rd Batt. C.E.F.
Appleton, George, Lance Corpl. 166th Batt., C.E.F.
Bennett, H. L., 3rd Batt., C.E.F.
Campbell, F. W., Lieut. 169th Batt., C.E.F.
Coady, R. T., Lieut. 9th Battery, C.F.A.
Commins, W. K., Capt. 216th Battalion, C.E.F.

Crawford, J. S., 53rd Battery, C.F.A.
Crecine, B. S., Royal Flying Corps.
Dunbar, John G., 70th Battery C.F.A.
Dunlop, R. S., Lieut. 134th Batt., C.E.F.
Edwards, J. M., 30th Howitzer Battery, C.F.A.
Forbes, John, 164th Batt. C.E.F.
Gawthorp, H. H., 3rd Battery, C.F.A.
Greene, E. A., Capt. 12th Battery, 3rd Brigade, C.F.A.
Hudson, A. R., Lance-Corpl. 2nd Signal Co., 2nd C.F.A.
Hunter, Cyril J., 9th Staffordshire T.F.
Hunt, A. M., 53 Battery, C.F.A.
James, E. T., Sergt. 169th Batt., C.E.F.
Jones, Percy, Lance-Corpl. Royal Engineers, T.F.
Keenan, W. J., 204th Batt. C.E.F.
Lawrie, D. J., 26th Battery, 7th Brigade, C.F.A.
Lee, R. C., Lieut. 123rd Batt., C.E.F.
Lorimer, W. A., Lieut. Recruiting League.
Merson, H. S., 33rd Battery, C.F.A.
Nash, L. E., 180th Batt., C.E.F.
Peace, A. G., 5th Can. Mounted Rifles, C.E.F.
Scott, A. H., Lieut. 13th Battery, 5th London Brigade, R.F.A.
Scully, John F., No. 2 C.A.S.C. Training Depot.
Shiach, H. A., 182nd Batt., C.E.F.
Smith, James S., Signal Corps, C.E.F.
Stephens, J. H., Lieut. 3/5 East Lancashire Regt.
Weir, Thomas, Sergt. 83rd Batt., C.E.F.
Wilkinson, Robert, Royal Flying Corps.

Casualties:

Hunt, Francis. Died after discharge.
Merson, A. E., 3rd Batt., C.E.F. Killed in action.
Pratt, William, Sgt.-Major 3rd Batt., C.E.F. Drowned at Front.
Robinson, F. K., Capt. 1st Batt., C.E.F. Killed in Action.
Simpson, Colin, 33rd Battery, C.F.A. Killed in action.
Smith, Charles, Princess Patricia's C.L. Inf. Killed in action.

The Institute of Chartered Accountants of Manitoba.

Members of the Institute.

Name.	Firm.
Anderson, Jos. S.	Webb, Read, Hegan & Co.
Bell, Jos.	Riddell, Stead, Graham & Hutchison.
Cherry, Herbert Meade	Cherry, Macdonnell & Co.
Craggs, George Somerville	Price, Waterhouse & Co.
Dunwoody, Jas. M., D.C.M.	Riddell, Stead, Graham & Hutchison.
Dewar, Douglas, Forestry Batt., C.E.F.	
Gray, Joseph Train	Marwick, Mitchell, Peat & Co., Calgary, Alta.
Hegan, Charles Robert	Webb, Read, Hegan & Co.

Jones, Basil	W. A. Henderson & Co., Medicine Hat, Alta.
Laing, George Stanley	Laing & Turner.
Law, Thomas	P. S. Ross & Sons.
McClure, James	Riddell, Stead, Graham & Hutchison.
Macdonald, Walter Jas.	Ronald, Griggs & Co.
Phillips, Arthur Edward	Arthur E. Phillips & Co.
Ramage, Wm., Capt. 222nd Batt., C.E.F.	
Reade, Hubert Thomas	Hubert Read & Co.
Roberts, Sydney V.	W. A. Henderson & Co.

Casualties:

McOnie, Ronald J. (killed), Private, 16th Battalion.
Watson, Frederick J. (killed), Lieutenant, 43rd Battalion.
Craggs, G. Somerville (wounded), Major, 10th Battalion.
Dunwoody, James M. (wounded), Lieut., Lord Strathcona Horse.
Hooper, Walter T., Major, 78th Batt., C.E.F. (killed in action).

Honors: Distinguished Conduct Medal.

Dunwoody, James M., Private, Lord Strathcona Horse.
Macdonald, Lieut. Walter J., 44th Batt., C.E.F.

Students of the Institute.

Dunbar, James E.	Webb, Read, Hegan & Co.
Fleming, Patrick Gifford	John Scott & Co.
Gibb, Philip A.	Hubert Reade & Co.
Hanson, Harold	Webb, Read, Hegan & Co.
King, William H.	Riddell, Stead, Graham & Hutchison.
McCartney, C. E.	Webb, Read, Hegan & Co.
Reid, Peter	Riddell, Stead, Graham & Hutchison.
Watt, William	Webb, Read, Hegan & Co.
Wilson, Sydney H.	Laing & Turner.
Wright, George H.	Riddell, Stead, Graham & Hutchison.

Casualties:

Hooper, Major W. T., 78th Batt., C.E.F. Killed in action.
Powis, Wilfred T. (killed), Private, 1st City of London Regiment.

Other Members of Staffs.

Burton, G. F.	Riddell, Stead, Graham & Hutchison.
Correll, C. E.	Laing & Turner.
Frank, Reginald	Marwick, Mitchell, Peat & Co.
Gray, Alexander	George A. Touche & Co.
Hill, C. A. T.	Webb, Read, Hegan & Co.
McRae, A. D.	Ronald, Griggs & Co.

Miller, W. Armour	Ronald, Griggs & Co.
Moorhouse, E. N.	Henderson, Read, Graham & Co.
Steel, J. M.	Webb, Read, Hegan & Co.
Tollemache, Philip	Riddell, Stead, Graham & Hutchison.
West, D. V.	Webb, Read, Hegan & Co.

Casualty:

West, D. V. (wounded), Private, 27th Battalion.

The Institute of Chartered Accountants of Nova Scotia.

Members of the Institute.

Capt. H. E. Crowell, Halifax, N.S., 85th Batt. N.S. Highlanders, C.E.F.

Staff Sergt. L. A. Woodin, Halifax, N.S., No. 7 Stationary Hospital Unit, C.E.F., Dalhousie University.

Local Defence:

Reg. Sergt-Major G. H. Holder, Halifax, N.S., 63rd Rifles.

Capt. Henry J. Stech, Halifax, N.S., 63rd Rifles.

Accounting Students of Nova Scotia.

H. T. McKenzie
R. J. Zwicker
Santon A. Foster
Wm. G. Dumlop
John Adamson
R. F. D. Parker
Gerald A. Leverman

Casualties:

Lieut. P. S. Nisbet, St. John, N.B., 26th Batt. C.E.F. Killed in action, June 2, 1916.

Lieut. Ralph D. Reid, of Milford, N.S., 85th Batt. N.S. Highlanders, C.E.F. Killed in action.

Pte. Ellis G. Gates, 64th Regt. Infantry. Wounded.

The Institute of Chartered Accountants of British Columbia.

Members.

Alderson, E. R., Private, 29th Battalion.
Caldicott, J. P., Private, Army Service Corps.
Foster, A. P., Capt., 72nd Batt., C.E.F.
Forsythe, Chas., Lieut.-Col., 50th Regiment Highlanders.
Gillespie, J. C., British Expeditionary Force.
Godby, H. W., Acting Paymaster at York, Eng.
Helliwell, J. F., Captain, B.E.F. (Egypt).
Hodge, T. K., 72nd Battalion, C.E.F.
Ismay, E. W., Private, 1st Canadian Pioneers.
Jackson, J. H., Lieutenant, 231st Battalion.
Leicester, Gerald, Lieutenant, Kitchener's Army.
Ross, James, 47th Battalion.

Robertson, C. H. D., Major 158th Battalion.
Roberts, S. V., Private, Army Service Corps.
Scrimgeour, Wm. Douglas, Kitchener's Army.
Small, Jas. D., 5th R.C.G.A.
Townsend, R. T., Audit Dept., Can. Exp. Forces, London.
Wicks, G. J., Captain, District Pay Office, C.E.F.

Students and Assistants.

Baker, W. B., Corporal, 16th Battalion.
Bell, O. H., 3rd Sec. 4th Div. Ammunition Column.
Bland, T. M., Private, 158th Battalion.
Bourne, A. E., Private, 29th Battalion.
Bowen, L. P., Lieutenant, 3rd King's Shropshire Light Infantry.
Bright, M. B., Lieutenant, Signal Corps, Royal Engineers.
Brown, C. R., 68th Battery, C.F.A.
Charles, Wm., Hon. Captain, Can. Ry. Troops.
Cunningham, R. T.
Carter, W. L., Private, 2nd C. M. R's.
Cornwall, A. M., Private, Army Medical Corps.
de Wolf, T. St. E., Lieutenant, 72nd Battalion.
Dent, T. E., Lieutenant, 11th C. M. R's.
Fairnie, A. C., Corporal, 72nd Battalion.
Flanagan, J. S., Private, 7th Battalion.
Foster, Geo., Jr., Private, 131st Battalion.
Francis, N. B., Sergeant, 68th Battery, C.F.A.
George, H. W., Lance-Corporal, Lewis Gun School, France.
Grant, R. M., Private, 16th Battalion.
Inglis, C. M., Lieutenant, 231st Battalion.
Kendall, Richard, Lieutenant, 2nd South Staffordshires, B.E.F., (wounded).
Kappell, F., Private, 54th Battalion.
Lennard, W. B., Lieut., Royal Canadian Regiment.
MacRoberts, R. K., Lieutenant, 9th Black Watch (42nd Highlanders) B.E.F., (wounded).
Meyer, H. F., Private, Army Service Corps.
Morley, Jos., Private, 67th Battalion.
Moreton, Frank, Private, 158th Battalion.
Marshall, H. W., Patrol Boat Service.
Peters, N. H., Lieut., 72nd Canadian Infantry Batt., (wounded).
Reid, T. M., Ammunition Column.
Riddell, W. G., Private, 54th Battalion.
Spouse, Melville, Private, 72nd Battalion.
Taylor, J. L., Sergeant, 231st Battalion.
Tucker, J. M., Private, 29th Battalion.
Vaughan, Geo., Lieutenant, 11th Canadian Mounted Rifles
Yule, W. A., Sergeant, 72nd Battalion.

The Institute of Chartered Accountants of Saskatchewan.

Members.

Coles, G. W.
Giles, Lawrence, Corporal, 210th Battalion.
Hurley, W. H., Capt. and Adjt., 181st Battalion.
Miller, W. A.
Rowan, J. Farnham, Sergeant, C.A.S.C.
Scott, Keith, Lieutenant, Princess Patricia's Canadian Light Infantry.
Thistlethwaite, E. H., Sergeant, 232nd Battalion.
Wood, James, Lieutenant, B.A.S.C.

Casualty:

Heathcote, J. S., Lieut., Coldstream Guards. Died of wounds.

Assistants.

Dawson, J. Dwight, Lieutenant.
Haddow, F. J., Sergeant, 217th Battalion.
Hays, J. Scott, Corporal, Princess Patricia's Can. Light Infantry.
Little, R. K., Private, 79th Highlanders.
McIlwaine, W. R., Captain.
Rattray, A. C., Sergeant, 195th Battalion.
Thomas, R. R., 77th Battery.
Thompson, J. H., 203rd Battalion.
Yates, Thomas, C.A.M.C.

Casualty:

Elliott, R.C.M.

The Institute of Chartered Accountants of Alberta.

Members.

Baldwin, H. W., Orderly Officer, 3rd Brigade.
Gray, J. Train, 2nd Lieut., 8th Royal Scots.
Jones, Basil, Lieutenant, 175th Battalion C.E.F.
Norman, H. G., Sergeant, 51st Battalion C.E.F.
Walker, M. H., Field Artillery, England.

Assistants.

Bagnall, G. L., Private, 196th Western Universities Batt. C.E.F.
Black, W. A., Sergeant, 63rd Battalion, C.E.F.
Darke, R. H., Sergeant, 194th Batt. C.E.F.
Fisher, R. W., Lieutenant, 10th Northumberland Fusiliers.
Hamblin, Edwin, Lance-Corp., 15th Light Horse.
Herbert, E. A. C., Trooper, 12th C.M.R., C.E.F.
Kinnaird, G. D., Ft. Garry Horse, Machine Gun Section, C.E.F.
Ladler, A. E., Lieutenant, 50th Battalion, C.E.F.
Lefroy, R. P. P., Lieutenant, 2nd Welsh Brigade, R.F.A.
Lloyd, W. J., Q.M. Sergt., 2nd British Columbia Regiment.
Maxwell, Geo. A., Army Medical Corps C.E.F.
Miller, C. P., Lieutenant, 82nd Battalion C.E.F.

Northover, A. W., 191st Battalion C.E.F.
Peters, H. S., Private, Cycle Corps C.E.F.
Pyle, H. J., Sergeant, 137th Battalion C.E.F.
Rice, Duncan, Canadian Army Medical Corps.
Robins, J. F., Private, 10th Batt. C.E.F. (Wounded at Ypres, now discharged and back in Canada.)
Sparrow, H. C., Sergeant, 137th Battalion, C.E.F.
Stillman, W. G., Lieut., 175th Battalion C.E.F.
Tennant, J. Cairns, Lieut., 7th Argyle & Sutherland Highlanders.
Thompson, J. C., Private, 49th Battalion C.E.F.
West, Thos. N., Captain, 191st Battalion, C.E.F.

Casualty:

Powley, H. Sterling, 3rd Division Cycle Corps, C.E.F. Killed in action.

A STARTLING STATEMENT.

Starting with 100 men at age 25, healthy, of good mental and physical capacity, but with no means except their ability to support themselves, the following is said to be their economic life history:—

Twenty years later—age 45; 16 have died; 3 are wealthy; 65 are supporting themselves, but have accumulated little or nothing; 16 are no longer self-supporting.

After thirty years—age 55; 20 have died; 4 are well off; 40 are still working, but have nothing ahead; the rest, 36, are more or less dependent on children or relatives, or charity, for support.

At the end of fifty years—age 75; 63 have died, of whom 60 left no estate; 3 still retain their riches; the rest are more or less dependent. Ninety-five per cent. of them will not leave sufficient to defray funeral expenses.

OFFICIAL LIST MEMBERS DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS.

Note.—This list does not contain the names of those members of a Provincial Society aon-resident in Canada, By-Law No. 1 of the Dominion Association of Chartered Accountants providing "the membership shall be *ipso facto* the members in good standing resident in Canada," etc.

The Association of Accountants in Montreal.

Name.	Address.
Apedaile, J. L.	17 St. John Street, Montreal.
Baker, C. W.	232 St. James Street, Montreal.
Baker, E. M.	80 St. Francois Xavier St., Montreal.
Bennett, E. J.	125 St. Peter Street, Montreal.
Birnie, J. G.	232 St. James Street, Montreal.
Brimacombe, L.	180 St. James Street, Montreal.
Brodie, A B.	145 St. James Street, Montreal.
Campbell, S. R.	142 Notre Dame Street W., Montreal.
Cinq Mars, A.	50 Notre Dame Street W., Montreal.
Cole, A. W.	157 St. James Street, Montreal.
Cole, Ernest C.	84 Commercial Union Building, Montreal.
Creak, George	80 St. Francois Xavier Street, Montreal.
Cross, A.	142 Notre Dame Street West, Montreal.
Currie, G. S.	179 St. James Street, Montreal.
Cushing. L.	80 St. François Xavier Street. Montreal.
Davy, J. H.	211 McGill Street, Montreal.
Dickson, W. F.	120 St. James Street, Montreal.
Dowie, L. A.	142 Notre Dame Street West, Montreal.
Duff, J. M. M.	107 St. James Street, Montreal.
Durnford, Geo.	189 St. James Street, Montreal.
Edwards, H. P.	107 St. James Street, Montreal.
Ferrie, R.	109 Board of Trade Building, Montreal.
Fisk, A. K.	703-4 Eastern Townships Bank Building, Montreal.
Gagnon, P. A.	316 Quebec Bank Building, Montreal.
Grant, J. A.	142 Notre Dame Street West, Montreal.
Hains, John McD.	412 Coristine Building, Montreal.
Hill, M. S. T.	263 St. James Street, Montreal.
Hodgson, C. A.	80 St. Francois Xavier Street, Montreal.
Hodgson, G. W.	511 Power Building, 83 Craig Street West, Montreal.
Hope, A. E. M.	263 St. James Street, Montreal.
Hutchison, Jas.	80 St. Francois Xavier Street, Montreal.
Hyde, John	304 Merchants Bank Building Montreal.
Jones, W. S.	137 McGill Street, Montreal.
Keddie, J. M.	British Chemical Co., Trenton, Ont.
Kerr, David S.	145 St. James Street, Montreal.

Kingan, G. B.	120 St. James Street, Montreal.
Kent, L.	86 Notre Dame Street West, Montreal.
L'Heureux, J. A.	11 Place D'Armes, Montreal.
Larue, J. A.	126 Rue St. Pierre, Quebec.
Macintosh, P.	157 St. James Street, Montreal.
McDonald, G. C.	52 Metropolitan Building, Montreal.
Midgley, H. E.	103 St. François Xavier Street, Montreal.
Miller, Robt.	Montreal.
Mitchell, A. F.	69 St. François Xavier Street, Montreal.
Mundell, W. J.	27 Alloway Avenue, Winnipeg, Man.
Murray, Jr., J. R.	17 St. John Street, Montreal.
Paterson, C. A.	157 St. James Street, Montreal.
Paterson, John	80 St. François Xavier Street, Montreal.
Payne, Gordon S.	551 Lansdowne Avenue, Westmount, Que.
Piper, H. S. T.	157 St. James Street, Montreal.
Plimsoll, A. H.	189 St. James Street, Montreal.
Rathie, W. W.	120 St. James Street, Montreal.
Riddell, A. F.	80 St. Francois Xavier Street, Montreal.
Ritchie, C. F.	211 McGill Street, Montreal.
Robertson, A. S.	202 Southam Building, Montreal.
Ross, Alex. F. C.	142 Notre Dame Street West, Montreal.
Ross, J. G.	142 Notre Dame Street West, Montreal.
Ross, John W.	142 Notre Dame Street West, Montreal.
Savage, E. B.	86 Notre Dame Street, Montreal.
Savage, G. A.	91 Commercial Union Building, Montreal.
Scott, Gordon W.	142 Notre Dame Street West, Montreal.
Sharp, F. W.	501 Power Building, Montreal.
Skelton, C. Harold	703-4 Eastern Townships Bank Building, Montreal.
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Menzies, J. H. ..... P.O. Box 1361, Winnipeg, Man.
Sampson, W. C..... 1219 Langley Street, Victoria, B.C.

OPPORTUNITY.

A great deal is said in these days about opportunity. A statesman made himself remembered for many years to come by his word picture in which he said that opportunity knocked once at every man's door. He left the inference that it never knocked again. Such a statement is contradicted by human experience. The fact is that in every life, opportunity is knocking constantly. The only trouble is that people have not trained their ears to catch the sound and recognize it. Our ears have grown dull of hearing. The fault is ours if we do not see and hear things. There are undoubtedly acres of diamonds in the world and they are at the feet of every man. That he does not possess them is because he has not vision enough; he cannot see the things that are about him. It is equally true of opportunities. The man who wants to do good does not need to be a missionary in some far off land; there is a neighbor at his very fireside who needs a helping hand.

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The Canadian Chartered Accountant

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THE CANADIAN CHARTERED ACCOUNTANT

OFFICIAL ORGAN OF THE

DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

VOL. VIII. OCTOBER, 1918 No. 2

DOMINION ASSOCIATION CONVENTION.

THE Sixteenth Annual Convention of the Dominion Association of Chartered Accountants, held at the Ritz-Carlton Hotel, Montreal, September 18th to 20th, proved a great success, over a hundred members being present representing all parts of the Dominion, many of them accompanied by their wives.

The programme so liberally provided by the Montreal members was carried through without a hitch and the delegates one and all voted this gathering as one of the most interesting, enjoyable and valued meetings in the history of the Association.

After a preliminary meeting of the Council Wednesday morning, the delegates assembled in the grill room of the Ritz-Carlton and an address of welcome was read by His Worship the Mayor of Montreal.

Mayor Martin in giving the delegates an official welcome, said that the work of the expert accountant was an important factor in the present world crisis, and the Association was rendering valuable services in checking and regulating public finance. The Dominion of Canada and the City of Montreal had both assumed heavy obligations since the war broke out, and under such conditions those who governed looked to the chartered accountants as reliable and expert men to advise how to deal with the problems that now come up.

Mr. F. W. Sharp, President of the Montreal Association, in thanking the Mayor for his attendance, recalled the fact that the Montreal Association was the first to come into existence. The President also responded, saying that had men at the head of public affairs shared the expressed opinion of the Mayor, much trouble in municipal and other finance would have been saved.

Apologies for absence from the Convention were reported from Sir Lomer Gouin and from Mr. W. Saunder Davies, President of the American Institute of Accountants, which was simultaneously in session. It was ordered that a message of greeting be sent. Mr. Georges Gonthier, President of the Institute of Accountants and Auditors, was welcomed as a special visitor.

After hearing the President's address and a paper on Governmental Sinking Funds, Serial Bonds and Depreciation Reserves, by Mr. Harvey S. Chase, C.P.A., of Boston, Mass., followed by an interesting discussion taken part in by many of the members, the delegates were taken in automobiles to visit the Beaconsfield Golf Club, where luncheon was served, and the privileges of the greens were granted to those desirous of playing golf.

In the evening the annual banquet took place at the Forest and Stream Club, at which the visiting members, their wives and guests, were present.

Thursday was given over to business, the delegates having the pleasure during the morning session of hearing an address by Mr. R. W. Breadner, Dominion Commissioner of Taxation, on the Business Profits War Tax Act and the Income War Tax Act. Many questions were asked and promptly answered by the Commissioner.

In the afternoon Mr. Thomas Mulvey, K.C., Under Secretary of State, addressed the members on "The Companies' Act" with particular reference to the Bonanza Creek Mining Company case, and gave a lucid explanation of the recent Court decisions in the case.

A large number of the members and accompanying ladies took advantage of the excursion to Quebec, leaving on the Thursday night boat, spending Friday sightseeing in old Quebec, and returning to Montreal Saturday morning. On Friday noon luncheon was served at the Chateau Frontenac, Quebec, the visitors having the pleasure of listening to addresses by His Worship Mayor Lavigneur, Mr. Rivard, K.C., Batonnier Quebec Bar Association, and Hon. C. F. Delage, Superintendent of Education, Province of Quebec.

A very enjoyable musical programme was provided by the members on board the boat.

The officers elected for the ensuing year are:—

President—John Parton, Winnipeg, Man.
Vice-President—Arthur C. Neff, Toronto, Ont.
Secretary-Treasurer—W. D. Glendenning, Winnipeg, Man.

The next Annual Meeting will be held in Winnipeg.

THE PRESIDENT'S ADDRESS.

To the Officers and Members of the Dominion Association of Chartered Accountants:

GENTLEMEN,—It affords me much pleasure to welcome you to this, the Sixteenth Annual Convention of the Association, and I trust that all our deliberations may be harmonious and instructive.

The British Empire, of which we are proud to be a part, has entered upon the fifth year of the great battle of right against might and for the maintenance of the principle that at all costs the pledged word of a nation, the same as that of an individual, must be kept sacred and inviolable. Many of our members and their assistants have enlisted in this great fight and we (in the words of Col. Ingersoll) "saw them as they marched proudly away under the flaunting flags, keeping time to the grand, wild music of war; marching down the streets of the great cities; through the towns and across the prairies; down to the fields of glory, to do and die for the eternal right."

Numbers of these brave men have made the supreme sacrifice and no more shall meet with us here, whilst others are returning broken in body but not in spirit. Let us ever hold in high honor and esteem all those who have so bravely responded to the call of our King and Country, in their hour of need.

Let our united prayer be that God may soon cause this horrible war to end, and that many of our members in active service may be permitted to return to us in health and strength.

It is a matter for congratulation that notwithstanding all the sacrifices we have been called on to make, through enlistment of principals and assistants, we as accountants have been able to carry on our duties so that the interests of our clients have not been prejudiced in any way.

When at your last Convention I was honored by being elected as your President, I realized that the responsibility was a heavy one, but I knew that the members of Council as well as the members of the Association as a whole, would be ready and willing at all times to assist me, and I am glad to say that I have not been disappointed, as without such assistance I could not have fulfilled the duties of the office, to the extent I have been able to do. The past year has been a rather strenuous one, owing to the many questions arising out of the workings of the different Dominion War Tax measures that have had to be dealt with, as well as other matters incident to the war. In as brief a way as possible I desire to submit for your consideration, and

I trust with your approval, a resume of what has been done during the year.

ACCOUNTANTS FOR IMPERIAL GOVERNMENT SERVICE.

In November last the Institutes of Manitoba, Alberta and British Columbia called my attention to an advertisement of Messrs. Barrow, Wade, Guthrie & Co., of New York, asking for 50 accountants for service in the Ministry of Munitions and War Office, England, and as this advertisement had not been inserted in the Canadian papers, it appeared as if Canadian Accountants were not to be given an opportunity to offer their services. In view of the resolution passed by our Association at its last Convention offering our services to the Government, I at once communicated with our Premier, the Rt. Hon. Sir Robert L. Borden, who took the matter up with the Imperial authorities, and they sent instructions to Messrs. Barrow, Wade, Guthrie & Co., to secure Canadian Accountants, if possible.

On receipt of a communication from Messrs. Barrow, Wade, Guthrie & Co., dated 1st February, 1918, I communicated with the different local bodies of Accountants, and several Accountants and assistants sent in applications, but from letters received from several of these applicants, they were unable to get any satisfactory replies. I thereupon communicated with Hon. C. J. Doherty, acting Premier, complaining at the apparent discourteous treatment, and asked that representations should be made to the Imperial authorities to have some Canadian Accountant appointed to secure assistants for Imperial service. Hon. Mr. Doherty has communicated with Rt. Hon. Sir R. L. Borden regarding this request and I trust that same will be acceded to.

CHANGE OF ITINERARY.

At the close of the last Convention it was suggested to me that it would be in the interest of the Association that a change of the itinerary of conventions should be made. On looking into the matter and examining the files of papers of the Association I found that Mr. George Edwards had given notice that he intended bringing this question up at the Annual Convention in Halifax in 1914. On account of war conditions this Convention became a formal one, and no action was taken on the suggestion of Mr. Edwards. I sent communications to the representatives of the local Associations, suggesting a change, which was substantially approved of, but a number of the local bodies expressed the desire that the Province in which the Convention should be held, should also have within its borders the President for the year. To meet this view I prepared and sent to the different bodies an amendment to the Constitution of our Association, as follows:—

Resolved, That Section 11 of the By-laws of the Dominion Association of Chartered Accountants, as adopted 12th February, 1910, be struck out and replaced by the following:—

"11. There shall be a President, and Vice-President, who shall hold office for one year. The President shall be chosen by the Council from elected representatives of the Societies in the following rotation, namely:—

The Institute of Chartered Accountants of Manitoba.
The Institute of Chartered Accountants of Ontario.
The Institute of Chartered Accountants of British Columbia.
The Institute of Chartered Accountants of Nova Scotia.
The Institute of Chartered Accountants of Saskatchewan.
The Association of Accountants in Montreal.
The Institute of Chartered Accountants of Alberta.

"The Vice-President shall be a representative of the Society next in the order of rotation.

"In the event of the New Brunswick Institute of Chartered Accountants securing membership in the Association prior to the annual meeting to be held in 1922, its name shall be substituted for the Montreal Association in the foregoing rotation and the Montreal Association shall be the last in rotation." This amendment having been unanimously approved by the Constituent Association has become law.

RETURNS UNDER BUSINESS PROFITS AND INCOME WAR TAX ACTS.

From time to time questions have arisen in connection with these returns which have necessitated representations being made to Mr. R. W. Breadner, Commissioner of Taxation, and I deem it my duty to report that all such communications have been courteously received by Mr. Breadner, and that in most cases he has acceded to our views. The following points have been dealt with:—

1. Inventories and basis of taking same.

On 27th March, 1918, Mr. R. W. Breadner wrote me asking if professional Accountants would favor the Government requiring that inventories should be certified by managers or chief executives that the goods were listed at cost price, and that a reserve be set aside to provide for probable loss or realization.

Under Section 20 of our By-laws I submitted to our Council for consideration the following resolution which was unanimously approved of:—

"The Council of the Dominion Association of Chartered Accountants having duly considered the question of showing at cost price all goods included in inventories, hereby resolves,

"That inventories of stocks on hand should be shown at cost, where the cost can be determined or at as near cost as possible. In cases where on account of age or change of style or other cause there has been depreciation, a special discount shall be deducted from the final inventory figures, and means provided for identifying such discount with the goods to which it applies. Where on account of war conditions the cost of war materials or manufactured goods is above normal prices, that it be permitted to set aside a special merchandise reserve to provide against possible loss or realization. And that in any return under either the Income War Tax Act or any other tax Act, that the amounts of such discount and merchandise reserve shall be allowed as a deduction from the yearly profits. That the manager or chief executive officer shall certify the inventories as having been taken in accordance with the terms of this resolution."

This resolution was forwarded to Mr. Breadner, and it is expected that a ruling of the Department along the lines of this resolution will be promulgated ere long.

DATES FOR INCOME TAX RETURNS.

Under the Income Tax Act all returns except those for incorporated companies had to be made at the end of each calendar year. This was a cause of hardship to private partnerships, or in cases where individuals were engaged in trade.

The Council of the Association approved of the following resolution:—

"That whereas under the provisions of Section 4, Sub-section (2) of the 'Income War Tax Act, 1917,' the Minister is authorized to permit any corporation to make its return on the basis of its income for the twelve months ending with its last fiscal year preceding the date of assessment;

"And whereas individuals and partnerships engaged in trade and commerce largely exceed in number incorporated companies, and that such individuals and partnerships have been in the habit of closing their books and making inventories at different dates than the end of each calendar year;

"And whereas Trustees and Eexecutors usually close the accounts of their administration at the date of the creation of the trust, or of the death of the testator;

"And whereas it is not fair or right that such individuals, partnerships, Trustees and Executors should be called upon to change the dates for the closing of their several accounts;

"And whereas the closing of the accounts of the individuals, partnerships, Trustees and Executors at one date, the end of the calendar year, renders it impossible for Auditors to verify the accounts and make reports thereon within the date specified in the Act;

"The Council of the Dominion Association of Chartered Accountants hereby resolves that the Finance Minister be requested to introduce such amendments to the Income War Tax Act, 1917, as will confer on him the necessary authority to permit individuals, partnerships, Trustees and Executors, who have habitually closed their books and account at dates different than the calendar year to make their returns of income for the twelve months ending the last fiscal year preceding the date of the assessment."

This resolution was also forwarded to Mr. R. W. Breadner and his Department thereupon made the following ruling.

RE INCOME TAX RETURNS.

"Members of partnership and proprietors of businesses whose fiscal periods are other than the calendar year, should include in their returns of income their respective shares in partnership profits whether distributed or not, ascertained at the end of the fiscal year falling within the calendar year for which the individual return is being rendered.

"The income of a partnership is held to accrue to the individual partner at the time his distributive share is determined, that is to say, at the end of an accounting period.

"Members of partnership and proprietors of businesses whose fiscal or accounting periods are other than the calendar year, must attach a copy of the financial statement of the partnership or business to each copy of Form T1, filed by the partner or proprietor, showing how the amount of profit shown in the individual return is determined."

It has been very gratifying to me the courteous treatment given by Mr. Breadner to all recommendations made on behalf of our Association, and I would respectfully urge on all our members to advise their clients to promptly comply with all requests made by the Department for returns and accompanying statements.

As Accountants we should do our best to aid in carrying out these War Tax Acts.

LEGISLATION.

Several important Acts of special interest to the profession have been enacted during the past year, of which I think mention should be made, at least such sections as may be of interest to the profession.

DOMINION PARLIAMENT.

7-8 George V., Chap. 25.

An Act to amend the Companies Act.

Sec. 4, SS. 7B.—Shares may be issued without any nominal or par value, except such part as may be issued as preferred stock.

Sec. 9, SS. 69A.—Requires that every mortgage or charge created after 1st January, 1918, shall be void against the liquidator or any creditor of the company unless the instrument, or a certified copy thereof, be filed with the Secretary of State of Canada within thirty days after the date of its registration.

Sec. 94A.—The company shall at its annual meeting appoint an Auditor or Auditors for the ensuing year, and fix their remuneration.

Sec. 94B.—Form of report and how balance sheet shall be signed.

Sec. 105.—Duty of directors to submit to annual meeting balance sheet, general statement of income and expenditure and report of Auditors. Also defines what balance sheet shall show.

* * * * * * *

8-9 George V., Chap. 10.

An Act to amend the Business War Tax Act, 1916.

Sec. 1.—Companies or persons having a business the capital of which is not less than $25,000 and under $50,000, to pay 25% of the amount of the profits exceeding 10% per annum.

Sec. 4.—Provided that this tax under Sec. 1 shall be payable for all accounting periods *commencing* after the 31st December, 1917.

The word "commencing" is evidently an error, as it is provided in Section 26 that the Act shall not continue in force after 31st December, 1918. As the Act reads at present any company or person whose fiscal year ended at a date subsequent to 1st January, 1918, would not be liable for the tax at all.

There is no doubt but that Parliament will at its next session adopt such legislation as may be necessary to secure returns for the year 1918.

Sec. 3.—Dividends paid during an accounting period shall be considered as a reduction of unimpaired reserve, rest or accumulated profits.

* * * * * * *

8-9 George V., Chap. 25.

An Act to amend the Income War Tax Act, 1917.

Sec. 3.—Provides for new rates of taxation.

Sec. 6.—Provides for returns being made by persons, in whatever capacity acting, of gains, profits or income received on behalf of clients, and the giving of the name and address of the taxpayer.

PROVINCE OF QUEBEC LEGISLATION.

8 George V., Chap. 20.

Sec. 1.—A Department of Municipal Affairs created.

Sec. 2520r.—Duty to oversee administration and putting into operation of the laws respecting the municipal system.

Sec. 6.—Auditor's report must accompany returns by municipalities.

* * * * * * *

8 George V., Chap. 28.

An Act concerning the deposit of monies for Sinking Funds of Municipal and School Corporations.

Sec. 1493a.—Sufficient sum to meet debt at maturity to be deposited with the Provincial Treasurer, or deposited elsewhere under permit from Lieutenant-Governor in Council.

Sec. 1493c.—Deposits to bear interest at 3½% per annum compounded annually, when made with Provincial Treasurer.

* * * * * * *

8 George V., Chap. 60.

An Act respecting municipal affairs.

Sec. 5956i.—Requires municipalities to make annual statements certified by the Auditor.

Sec. 5956j.—If report not satisfactory Minister of Municipal Affairs may appoint inspectors to make special examinations.

Sec. 5956q.—Establishes periods for loans for different public works.

Sec. 5956r.—Lieutenant-Governor in Council may make regulations as to form of books, method of keeping accounts, etc.

Sec. 5956t.—Proceeds of loans must be used strictly in accordance with by-law. If any surplus, same can only be used for other purposes under a new by-law approved of by electors.

Sec. 5788.—Every by-law providing for loan after being voted on and passed by the electors must be approved of by the Lieutenant-Governor in Council before it becomes effective.

Sec. 5903c.—Every bond before its issue must bear a certificate of the Minister of Municipal Affairs, establishing that it has been issued under approval of the Lieutenant-Governor in Council.

One outstanding feature in all these laws is that the necessity of an Auditor being appointed is emphasized, but so far none of the Governments require that professional Auditors should be appointed.

When the legislation at Quebec was introduced, I communicated with Sir Lomer Gouin, Premier, and informed him that we as Accountants would be pleased to co-operate with the Government, in preparation of forms for returns or books of account and he has replied that he would submit the matter to his colleagues.

APPLICATION FOR MEMBERSHIP

Have been received from the Institute of Chartered Accountants of New Brunswick and the Institute of Accountants and Auditors of the Province of Quebec. These applications have been referred to the Council for action thereon as required by our Constitution.

MEMBERSHIP.

The following statistics show the progress that has been made in our membership since 1910, when the different local Associations became affiliated with the Dominion Association:—

Incorporated in	Province	Members, 1910	Members, 1918	Increase
1880	Quebec	46	71	25
1883	Ontario	130	157	27
1886	Manitoba	29	80	51
1900	Nova Scotia	16	33	17
1905	British Columbia	13	68	55
1908	Saskatchewan	7	53	46
1910	Alberta	Nil	49	49
1902	Members at large	14	4	10*
		255	515	260

THE CANADIAN CHARTERED ACCOUNTANT.

At the last Annual Convention a vote of $200 was passed towards the expenses of this journal, but so far only $100 of this amount has been called for. The journal has kept up its high standard of efficiency, and has served as a medium for communicating information as to what is being done by the local bodies. I respectfully recommend that a vote of $200 be passed by the Association to be drawn upon, as required, by the committee in charge of this publication.

---

*Decrease.

CASUALTIES AMONGST OUR MEMBERS AND MEMBERS OF STAFFS.

WOUNDED. During the past year the following casualties have been reported:—

Association of Accountants in Montreal—
Capt. George C. McDonald, M.C.
Capt. E. B. Savage.
Major Harold M. Savage, D.S.O.

Institute of Chartered Accountants of Manitoba—
Pte. James Grant.
Lieut. Chas. Robert Hegan.
Major George Stanley Laing.
Pte. George B. Hare.
Capt. F. Wade Denbigh.
Pte. A. Fordham.

Institute of Chartered Accountants of Alberta—
Orderly-Officer Harry W. Baldwin.

REPORTED MISSING.

William Addison Lake, Manitoba.

DIED.

Association of Accountants in Montreal—
Lieut. J. Davey, fell in action.
Lieut. Charles Edwards Hyde, fell in action.
Gunner David A. Bruce, fell in action.

Institute of Chartered Accountants of Ontario—
Capt. W. K. Commins, fell in action.
Francis Hunt, died of wounds.

Institute of Chartered Accountants of Manitoba—
Lieut. Ben Strachan, fell in action.
Pte. David Morris, fell in action.

Institute of Chartered Accountants of Saskatchewan—
Lieut. J. S. Heathcote, died of wounds.
Corp. J. Scott Hays, fell in action.
R. C. M. Elliott, fell in action.

These brave men have made the supreme sacrifice, and have laid down their lives in the battle of right against might, and the shedding of their blood has helped to make the world a better one to live in. To the relatives and friends we offer our deepest sympathy in their hour of grief and sorrow, and if anything we can say or do will help them in their hour of trial we will willingly do it. Never again shall we be able to meet with these departed ones here, but with the mourning relatives we may say in the words of John Oxenham:—

> "But now, well, 'all's well,' but we're waiting no more
> For the sound of his key in the door;
> It lies with him there in his lonely grave,
> Out there at the front, where his all he gave,
> Our lives and the Soul of Life to save,
> And our hopeful vigil is o'er.
> For now it is he who is waiting for us,
> On the other side of the door;
> And another stands with him there waiting for us,
> And the sound of our key in that door."

HONORS.

The following have been conferred by His Majesty upon members of the Association during the year:—

Association of Accountants in Montreal—
  Brig. General James G. Ross. C.M.G.
  Major Harold M. Savage. D.S.O.

Institute of Chartered Accountants of Ontario—
  Lt.-Col. H. D. Gordon. D.S.O.

Institute of Chartered Accountants of Manitoba—
  Lieut. Walter J. Macdonald. M.M.
  Lieut. William Hope King. D.S.O.

PAPERS TO BE SUBMITTED.

We have been extremely fortunate in securing such an array of talent to prepare papers and addresses for this Convention. Mr. Harvey S. Chase is one of the leaders in the United States in matters of government and municipal accounts. Mr. Thos. Mulvey, K.C., is one of the best, if not the best, authorities in Canada, of joint stock company law. Mr. R. W. Breadner, from the position he holds, is well qualified to speak with authority on the many complicated questions that have arisen in connection with the Business War Profits and Income Tax Acts. I am sure that we shall receive much valuable information and such as will prove useful in the practise of our profession.

The members of the Association owe a deep debt of gratitude to these gentlemen for their kindness in preparing their papers and addresses.

I beg to submit for your consideration and action thereon the following matters:—

BUSINESS PROFITS AND INCOME TAX RULINGS.

That, if possible, arrangements be made to issue at stated periods a bulletin covering these rulings, to be furnished to the members of our Association.

MAIL VOTE IN LOCAL BODIES.

That each Society should adopt a by-law authorizing its Secretary to secure a vote by mail from the members of their several Councils, in any matter referred to them by the President of the Dominion Association under Section 20 of our by-laws.

At the present time, especially in the West, where members of local Councils reside at long distances from each other, it is necessary to wait for a regular meeting of the Council to pass on such references, which means a delay of months, and all the benefits of a mail vote are nullified.

In conclusion I desire to convey my thanks to the members of Council for the loyal support they have given me during my term of office, and I desire that my successor in office may be surrounded with an equally loyal band, as by working together in harmony much may be accomplished for the benefit of the profession. Trusting that ere we meet again we shall have seen the end of the present war, and that many of our members now fighting in France may be permitted to meet with us. In the words of Abraham Lincoln: "Let us have faith that right makes might and right truth and justice shall win the day."

The whole respectfully submitted.

JOHN HYDE,
President

THE GREATEST THING.

It's great to be an emperor
And have a royal crown;
It's fine to be a scholar
And wear a cap and gown.

It's great to be a statesman
On weighty matters bent,
And it surely must be wonderful
To be the President;

But the thing that is the greatest
After all is said and done,
Is just to be a father
And have a soldier son!

(Exchange.)

THE BUSINESS PROFITS AND INCOME WAR TAX ACTS.*

By R. W. Breadner, Commissioner of Taxation, Ottawa.

WHEN our mutual friend Mr. Hutchison asked me to address you, I at first hesitated, but on considering his request I thought it was due to you gentlemen, with whom the Department is so closely associated, especially in the administration of the Business Profits War Tax Act of 1916 and the Income War Tax Act, 1917, to comply, if I could be of any assistance to you.

I will speak first concerning the provisions of the Business Profits War Tax Act. I do not intend to enter upon any discourse as to the reasons why such an Act was placed on the statute books, but to deal with the administrative features of it. The Act became law on the 18th day of May, 1916, but it relates to any accounting period ending after December 31, 1914. A good many persons, especially tax-payers, have the idea that the Act applies only to profits made after that date; now the Act does not say that, it specifies that it shall apply to each and every accounting period which ended after the date stated, and that it would apply to a period of not less than 36 months. In other words, if the accounting period of a company was the calendar year, the profits made between the 1st of January, 1915, and the 31st of December, 1917, were to be taxable. At the last session of Parliament the Act was extended for another year. If the accounting period ended 31st January the Act would apply to profits made between February 1st, 1914, and 31st of January, 1917, and since extended to 31st of January, 1918. In other words, each company that was in existence prior to 1st of January, 1915, and has not changed its accounting period since that time, will be liable for taxation for 48 months, irrespective of the date when the accounting period starts.

Another question is as to the interpretation of "each and every accounting period." Many institutions prepare monthly statements, or quarterly, pay quarterly dividends, etc., but their accounting periods are not in my opinion monthly or quarterly. The ruling given on that point is that accounting periods may be considered as annual where the custom has been to submit only annual statements to the shareholders. Under part 1, sec. 3 of the Act (sub-sec. a) the amount of tax paid under part 1, "The Special War Revenue Act, 1915," may be deducted from the tax that would otherwise be payable under the Business Profits War Tax Act. That clause has caused a good deal of misunderstanding, as the words "part 1" as set forth in the Act have evidently been overlooked. The Special War Revenue Act has several parts, tax on railway tickets, on patent medicines, and several other different methods of taxation, and claims have been submitted that all these taxes, including the additional postage tax, should be deducted. Part 1 of the Special War Revenue Act has reference only to tax paid on bank note circulation, the income of trust and loan companies, and the premiums of certain insurance companies; and last year, in order to leave no doubt as to the meaning of that section, the words were inserted that the tax paid under the said Act must not be charged as an expense. The reason of that amendment was this: if the tax paid under the Special War Revenue Act were allowed to be treated as an expense of the company, by a trust and loan company, say, and in addition treated as a deduction from the tax payable under this Act, where the rate is, say 25%, the company would be getting $1.25 for every dollar it paid, and I may say the argument was put forth that under the section as originally enacted a company was entitled to claim $1.25; of course I may add that no one secured that rate. So that accounts for the amendment of last year, and also the words "Income Tax," were added.

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*An address delivered at the Annual Convention of the Dominion Association of Chartered Accountants, Montreal, Sept. 19th, 1918.

Now the next sub-section (b) applies to dividends: "Dividends received from the stock of any incorporated company which has paid a tax upon its profits under the provisions of this Act shall not be included when the profits of any business are being determined."

That applies to dividends received by an incorporated company, and has special reference to dividends received by a holding company from a subsidiary, the profits of which have been taxed, the idea being that it would not be right or proper to have double taxation in Canada.

The next sub-section (c) refers to taxes paid in the United Kingdom, India, or any Dominion, Colony, or Dependency of His Majesty or any Allied country, under legislation for raising revenue for the war. It was thought proper at the time that if a tax was paid by a company in Great Britain, say, in respect to its Canadian business, it would be generous on the part of Canada to give credit to the extent of that amount on the tax payable here. Last session it was deemed advisable in view of conditions that had arisen regarding the administration, to repeal that provision. But I may say that sub-sec. c will still apply to accounting periods ending in 1915, 1916 and 1917, its repeal only affects the 1918 accounting period.

The next section defines an accounting period: "For the purposes of this Act an accounting period shall be taken to be the period for which the accounts of the business have been made up, but where the accounts of any business have not been made up for any definite period, or for the period for which they have been usually made up, or if a year or more has elapsed without the accounts being made up, the accounting period shall be taken to be such period and ending on such date as the Minister may determine."

It is almost needless for me to tell you that prior to the enactment of this Act many firms and companies, some quite large ones, did not have a regular accounting period, and their systems of bookkeeping were very poor. "Accounting period" is meant to be the regular and usual period for which the accounts and books of any business are kept, closed and determined for the purpose of showing the financial results of the operations for such period. You gentlemen will fully understand that, although all the business community apparently do not seem to so understand, they seem to think they can change their accounting periods as they see fit. In no case have they been relieved of payment of the tax for the full three years by so doing, and in some cases, unfortunately for themselves (for over that the Department has no control), they have made themselves liable for a longer period.

Sec. 5 sets forth the trades and businesses to which the Act shall apply. As originally passed it only applied to trades and businesses having a capital of $50,000 and over; last session the Act was amended to include companies, firms and individuals engaged in trade or business with $25,000 capital or over. Foreign companies shipping goods into Canada, on consignment of which the value at any time during the accounting period amounts to the sum of the capital set forth in the Act, will be considered as coming within the provisions of the Act; that is to prevent foreign companies coming into Canada and selling goods through agents, keeping a stock here or selling on consignment and escaping the tax. If this ruling had not been made it would mean that Canadian companies who have established a warehouse in this country would have this undue competition.

A company incorporated in Canada whose business is carried on and assets situated entirely outside of Canada, is not subject to the provisions of the Act. The same provision was added to the Income War Tax Act during last session of Parliament; the idea being that no harm can come, but in fact good results to Canada by the incorporation of companies, and if the company is not doing business in Canada, but only has its head office here, it should not be liable to taxation under this Act, being taxable in other countries.

The next section deals with something about which you gentlemen have doubtless had some experience, that is, Depreciation. If I mistake not, prior to the coming of this Act the Chartered Accountants of this Dominion were chiefly concerned in urging upon their clients the necessity of making adequate provisions under this head. I understand you have not had any trouble on that point since. More recently in the administration of the Act the question of appreciation and depreciation of securities has been raised; the Department holds that appreciation or depreciation based on stock exchange quotations of securities cannot be taken into consideration in determining profits for the purposes of this Act. The same principle applies to land. Many persons claim depreciation on lands, especially western lands. The Department takes the position that so-called profits or losses of this nature cannot be taken into consideration until the investments have been disposed of.

In the administration of these Taxation Acts the desire and endeavor of the Department has been to look at questions from the standpoint of the tax-payer as well as of the collection of revenue, and if there is a doubt the policy has been, as laid down in the Customs Act, that the benefit of the doubt must be given to the tax-payer. Therefore when the question came up as to how the tax paid under this Act should be treated, the Department after careful consideration decided that the tax paid under the Business Profits War Tax Act should be considered an expense of the accounting period following that during which it accrued. Now, whether it appears in the accounts of the tax-payer or not, in the preparation of the assessment at Ottawa the tax paid is always so treated.

Donations to patriotic funds, etc., may be considered as an expense, and not a deduction from the tax payable. Many letters were received by the Department contending that contributions to the Patriotic Fund, Red Cross, etc., etc., should be allowed as deductions from the tax payable. If that were allowed, you gentlemen will readily see what the result would have been—there would have been no tax collected at all.

Another point in respect to profits came up; and in some cases I have no hesitation in saying that it results in what seems a hardship; that is, that losses incurred in one period cannot be allowed as a reduction against profits of a succeeding period; the Act sets forth clearly that "such tax shall be levied against and paid by the person owning such business for each and every accounting period ending after 31st December, 1914." The powers of the Department are administrative only, and where specific provisions are set forth the Department has no power to change them.

Another question of vital importance to those engaged in business at the present time is that of inventories. Owing to the very high prices now prevailing, and the practical certainty of a drop when normal conditions return, the Department has ruled that inventories of merchandise shall be taken at cost, or at market values if less than cost. It is no business of the Department if a company sets aside a reserve against the contingency of a future fall in prices. But whether any part or the whole of that reserve will be allowed as an expense can only be determined after scrutiny of the returns for assessment purposes, and consideration of the conditions that have arisen after the setting aside of that reserve; the Department cannot settle that question in advance.

Now as to the collection of the tax, there seems to be some misunderstanding among the business community and the newspaper fraternity. Take the 1917 period; many persons say, "Well, you have not collected for 1917 yet." True—and why? Under the Act 1917 returns do not have to be submitted until July 1, 1918, and the Act as originally passed provided that no assessment for 1917 should be made until 1st September, 1918. In making the assessment the Department must be a year to a year and a half behind.

Another question which affects corporations largely is the treatment of life insurance premiums paid. The Department has held that corporation life insurance can not be regarded as an expense, it is rather an asset; and on the same principle the proceeds that will be realized from such policies will not be treated as profits. We consider that that is a fair ruling. Otherwise, if the persons insured die, under the present rate of taxation, if the profits of the company amounted to 20%, it would mean that the Government would be taking practically 75% of that insurance instead of the company.

Question—In the case of term insurance, a policy taken for five years, say, where there is no surrender value, the premiums paid are absolutely gone; does that make any difference?

Answer—In my opinion it is much better for the company to have the payment treated not as an expense, for the premium paid would be small, while if it were treated as an expense the proceeds received in case of death would have to be treated as a profit and taxed accordingly. Treat the payments as capital, and you get credit as capital if the policy is paid.

Q.—But in the event of no death it is a straight expense?

A.—It would be in that case, but in respect to an endowment policy or tontine or any policy where there is a surrender value, the Department will treat it as an asset from the first payment all the way through.

Q.—The full amount?

A.—Yes.

Q.—Not the surrender value?

A.—No.

Q.—On all life insurance policies for the first three years there is no surrender value. Would you not consider the first three years' premiums as an expense and only the surrender value as an asset?

A.—No, because if you did that the amount received in case of death would have to be treated as a profit, as I said.

Q.—Might I suggest that an equitable method of treatment would be, that the premiums be charged to expense, and where any return is received, that at that time the amount of premiums paid be reversed from expense, and the excess over that amount treated as capital?

A.—That might work if the Business Profits War Tax Act is to be considered as a permanent measure. But indications so far lead to the conclusion that it is considered as a temporary measure, for war time only. Therefore the matter has to be closed up each year.

Q.—If the War Tax is not continued some other will be?

A.—The Income Tax is another matter.

Q.—Furthermore, if this tax is only of brief duration, isn't it the more likely that there will be no off-setting profit? Therefore this expense could only be considered as lost.

A.—That might be so if we had any certainty in life, but the Department has already had to deal with several cases in which the insured has passed away, and it would have been a serious hardship to the companies concerned if that insurance had been treated as a profit, or as revenue.

Q.—The majority of cases where this insurance is carried are small companies who are not financially strong and they have to carry it for the protection of the bank, and it seems to me the position you take works a hardship. I know of cases where the premiums run into two or three thousand dollars a year for straight term insurance, no surrender value. I might add that I think I have seen a ruling in the United States where these premiums have been allowed as expense.

A.—I wish you would show it to me.

Another point that came up and was pressed very forcibly until the Act was amended, is that profits made during an accounting period should for that period be classed as capital. In the case of one company it would have made a difference of some $10,000; their accounting period was the calendar year, and they claimed that half the profits should be treated as capital from July 1st. It was submitted to this company's solicitors that if that principle were followed the company would have a right to go farther, and claim a daily balance. You can see what the result would be. (A member—The Accountant would get the money instead of the Government.) So the Department ruled that profits made during the accounting period cannot be classed as capital.

Another ruling is that insurance taken as a sinking fund for payment of a mortgage is not considered as an expense.

It was surprising the number of firms in Canada, especially in respect to close corporations and private firms, where very small or no salaries were paid to the partners or members who conducted the business of the concerns. In some cases the Department was called upon to determine what was a proper allowance to make to these individuals. Now that could not be done by correspondence, it practically had to be done by personal interview, chiefly by the officials in the different districts where the tax-payers reside. The Department has ruled that a reasonable reduction should be made for salaries where no allowance has been made.

The next section has certainly been a bone of contention, that is, the question of capital—what is capital? The first subsection sets forth—capital shall be the amount paid up on its capital stock. Bonds or borrowed money cannot be classed as capital, but the interest paid thereon is considered as an expense of the business. "For the purposes of this Act the amount paid up on the capital stock of a company shall be the amount paid up in cash. Where stock was issued since January 1, 1915, for any consideration other than cash, the fair value of the stock at the date of issue shall be deemed to be the amount paid up on such stock. In estimating the value of stock issued for any consideration other than cash, regard shall be had to the value of the assets, real and personal, movable and immovable, and to the liabilities of the company at the date as of which such value is to be determined."

The Department holds that where a trade or business has been converted into a company and the shares in the company are wholly or mainly held by the person or persons who were the owners of the trade or business, no value shall be attached to such shares so far as they are represented by "goodwill" or otherwise than by material assets of the company unless special circumstances warrant consideration. But patents and secret processes shall be deemed to be material assets. I may say the ruling I have just quoted is in conformity with the ruling in Great Britain. Another point that has arisen on which the view of the

Department will perhaps not agree with that of the accountants is that impairment of capital does not constitute a reduction of the amount paid up on the capital stock of an incorporated company. The Act says "the amount paid up on its capital stock," and there is no provision in the Act for any reduction of that amount.

Q.—There would be no object in claiming an impairment, would there—you would lose the 7%?

A.—But in some cases it would reduce the capital of the business below the $50,000.

The next sub-section (4) says: "For the purposes of this Act the actual unimpaired reserve, rest or accumulated profits of an incorporated company shall be included as part of its capital."

Owing to a good deal of controversy during the first year, to remove any doubt that section was amended to provide that the actual unimpaired reserve, rest or accumulated profits held at the commencement of an accounting period by an incorporated company shall be included.

The amendment was made to agree with the ruling of the Department. (Laughter.) Some companies might feel that they were not being treated fairly, and in the administration of an Act of this kind, over a territory extending from ocean to ocean, the Department must exercise the greatest care that the treatment of all is on a basis of equality, and therefore where it makes a ruling, unless it is found to be absolutely wrong, it is not advisable that the principle so laid down should be changed.

Q.—Is the merchandise reserve that you spoke of part of the capital of the business?

A.—If when the returns are scrutinized it is considered that the allowance should be made, it is treated, not as capital, but a liability of the company, and the balance treated as capital.

Another amendment provides that dividends paid during an accounting period shall be considered as a reduction of unimpaired surplus, rest, or accumulated profits. If any other principle was followed it would mean that the Department would have to employ an army of officials throughout this whole country to investigate each case and ascertain from the tax-payers' books whether the profits were actually made at the time the dividends were paid, that is, during the period in question, or whether made in a prior period; therefore this course was taken to save expense, and it is not a hardship, considering that the tax paid is allowed by the Department to be treated as an expense in the following accounting period; so these amendments were made for administrative purposes.

Q.—I know clients who have made their returns regularly yet have not received their assessment from the Department. If they are entitled to deduct the tax paid as an expense, and have not received the assessment, how are they to deal with it?

A.—The instructions given to the accountants who are handling the returns in the Department are as follows: "Your duty is to check these accounts, and be fair to and protect the tax-payer as well as the revenue." Now, if in any case the tax is found to be payable but has not been assessed, we will credit against the profits made during the following accounting period the tax found to be payable. And, by the way, I would be very glad if the gentleman will give me the name of the company (he can do it in private, of course); I want to see about it. I have heard that stated before, but in almost every case it turns out on investigation either that no tax is payable, or in other cases that the assessment has been made and the tax paid for a year or two years, and yet that complaint comes to the ears of the Department.

Q.—You credit it whether paid or not?

A.—Yes, we treat it as an expense of the following period.

Q.—With respect to the capital of a non-Canadian company, can you give us a simple illustration of that?

A.—Yes, the Act is very specific; take the total assets of the company and divide that amount by the amount of the assets in Canada, and apply the percentage so obtained to the total capital and you have the capital in Canada. Of course the "capital" includes the unimpaired rest and accumulated profits, etc.

"For the purposes of this Act the capital employed in the business of a non-Canadian company shall be such portion of the amount paid up on its capital stock as shall bear the same proportion to the amount paid up on its entire capital stock as the value of its assets in Canada bears to the value of its total assets.

Q.—In the case of a foreign company selling on consignment in Canada, whose duty is it to make the returns as to profits?

A.—It is the duty of the owner of the goods, the company, without any notice or demand from the Department.

Q.—If the company is in Europe I do not see how the Department has any jurisdiction.

A.—They have to have an agent or someone to do their business—the company is responsible, no matter where it is, for the business done by it in Canada.

Now as to the meaning of the word "unimpaired," the Department has ruled that reserves for bad and doubtful debts, or depreciation of plant and machinery or any form of wasting assets, are reserves against impairment of assets and therefore cannot be classed as capital.

The next section we have practically dealt with. Now I come to a very important section. When the Act was passed we had a great many applications from those who wished to be members of the Boards of Referees. I want to say that owing to the patriotic spirit displayed by the tax-payers the Government has not been called upon yet to appoint a Board of Referees. (Applause.)

I also desire to give you some information as to the amount of taxes paid under this Act, and the cost of collection.

BUSINESS PROFITS WAR TAX ACT, 1916.

Revenue and Cost of Collection.

Amount Collected.	Cost of Collection.	Cost per $100 Collected.
1st Year, $12,508,549.96	$58,174.81	46½c
2nd Year, $21,271,083.57	$80,634.02	Fraction less than 38c

Total Collections to date (Sept. 18)	$43,330,494.12
Estimated Amount to be Collected, Accounting Periods 1915 and 1916	2,500,000.00
Accounting Period 1917	18,000,000.00
Total	$63,830,494.12

Estimate when Bill was submitted to Parliament "Probably as much as twenty-five or thirty million dollars."

The Department expects the tax payable during the three years the Act was originally intended to cover will be collected before the close of the fiscal year.

There is an impression in certain circles that the amount of tax unpaid in respect of the 1915 and 1916 periods amounts to an enormous sum. The best estimate I can make is that the amount unpaid is about $2,500,000. There are many reasons for that remaining unpaid; one reason is that assessments in some cases have not been made, or have been delayed, owing to the necessity of a personal interview with the tax-payer. In respect to the 1917 accounting period the Department expects to receive about $18,000,000—or a total for the three years of nearly $64,000,000, as against a maximum estimate of $30,000,000.

Q.—In the case of those delinquent companies is any attempt made to equalize the position by charging interest?

A.—The Act provides that the tax shall be payable within one month of the date of mailing the notice of assessment, and in default of payment interest at 7% per annum shall be paid. If the assessment is not made the responsibility is not on the company, but on the Department. And as to that, I consider that it is far better for the Department to be sure and to get the full amount of tax that is rightfully payable rather than hastily fix an arbitrary amount which may be much below what it should be, or on the other hand, to have to deal with an appeal case; by that course the administration will be ahead much more than the small amount of interest lost; besides which we have also the good-will of the tax-payers, which is very essential, where we are covering, from a centre at Ottawa, the whole Dominion. The assessment of a municipality is an entirely different matter. There the Assessor can come in contact with the taxpayer at once. The maximum staff employed throughout the whole Dominion during any one year, including the staff at Ottawa, in the administration of the Business Profits War Tax Act, was forty, half of whom were stenographers and typists. Often it was much less. The principle we followed was that this was a temporary Act. The Department could have put on a large staff, run up a heavy expenditure and completed the work in four or five months, and for the rest of the year the staff would have been idle, or else we would have had to release them and hire a new staff for the next year, resulting in lack of uniformity. It was considered more advisable to have a permanent organization for the three years and preserve uniformity of administration. The Department expects that the tax payable during the three years the Act was originally intended to cover will be collected by the close of the fiscal year.

Q.—I would like to ask a further expression as to the attitude you propose to take with respect to inventory reserves. I understand your position is that the taxpayer may set up whatever reserve he deems advisable, but you reserve the right to disallow that or deal with it as you think fair. Suppose an inventory so taken, the goods have since been sold at a profit, will you say that is a taxable profit even though the taxpayer had to turn around immediately and invest a still larger amount in goods at prices still further enhanced and so has still in prospect a future loss?

A.—If there has been no loss incurred at the time the returns are scrutinized, why should any allowance be considered? It is a question that must be left largely to the judgment of the officials dealing with the matter, we cannot lay down any set rule. We had a case not long ago of a company handling a line of goods in which there was a material drop in prices. At the date of the returns the stock was set forth as being worth a certain amount. In determining the assessment six months afterwards those factors were taken into consideration. I cannot impress upon you too strongly, gentlemen, that in the administration of this Act the Department desires to deal fairly with the taxpayer.

Q.—I am convinced of that; I think, however, the solution depends on whether or not this tax is to be a continuing measure; if it is only for a three year period, and if at the end of that time the dealer is still carrying a stock at prices much above normal and so facing a future loss that is not provided for in assessing his tax.

A.—That statement is correct; all I can say is that the taxpayer must trust to the fairness of the Department when it makes his assessment for the next year. No rule can be made in advance setting forth any exact rate that would be allowable, it would depend on many factors, the Department must be the judge; subject, of course, to the taxpayer's right of appeal if he sees fit.

Q.—It may be of interest to point out that the English authorities have passed legislation allowing two years after the cessation of hostilities within which loss on stocks carried over may be adjusted and deducted from the tax.

A.—There is no such provision here.

Q.—No. The point is you do not regard this as a continuing tax.

Q.—You have given a number of important rulings. Is it possible to get these in a shape to be available?

The President—That is dealt with in the President's address.

Q.—In regard to inventories and goods that have gone out of fashion or become shopworn, is it expected that the merchant (I speak with special reference to the small trader) shall take these goods at cost price and a deduction made at the foot of the inventory and that deduction set out on his return? Generally a merchant in taking stock prices such goods at what he considers them worth to him, and in fixing his selling price he bases it on the last current inventory price, so unless he used two columns of prices he would not know just what he had taken off. Would he be accused of an evasion of the Act by taking them at the price he considers them worth?

A.—Where the market value of merchandise is less than its cost, owing to being out of fashion or for other reasons, a merchant in my opinion would be justified in taking it in at what he thinks its fair value at the time the inventory is taken. That is subject to the approval of the Department as to the price being reasonable.

One other point in respect to the Business Profits War Tax Act. Many taxpayers, and by that I mean taxpayers as defined by the Act, sec. 2, are inclined to decide for themselves as to whether or not they are taxable, and so neglect to file returns.

Now the Act places the responsibility for filing returns on the taxpayer. In addition to that the Department has during the last three years forwarded forms for returns by registered mail to those who are deemed liable to taxation under this Act. The receipt of those forms requires the making of the returns called for; whether the tax is payable or not, the Department will be the judge. But every person who receives the forms should file returns; and they will be followed up and will have to do so.

The Income War Tax Act, 1917.

This, in my opinion, will be a permanent Act as long as we are alive, although I am also of the opinion that the revenue derived therefrom may not reach the amount that some of our newspaper friends estimate, based on the wealth of the country.

In furnishing returns under this Act gross income must be shown in all cases, and particulars furnished of deductions claimed. Subject to the taxpayer's right of appeal the officers administering the Act are the judges of what are proper deductions from gross income and the taxpayer will not be excused from liability for omission; it is absolutely necessary that the taxpayer should take the Department into his confidence, place his cards on the table and let the Department decide, and I think the reputation the Department has in connection with the Business Profits War Tax Act will be maintained in the administration of the Income War Tax Act. In a taxpayer's gross income should be reported every item of income derived from any source whatever, actually received or accrued due in the calendar year for which the return is made, whether received in cash or the equivalent of cash, including:—

(a) The annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary, or other fixed amount, or unascertained as being fees or emoluments; or

(b) Profits from a trade or commercial or financial or other business or calling, directly or indirectly received by a person from any office or employment or profession or calling or any trade, manufacture or business, as the case may be.

(c) Interest, dividends, or profits directly or indirectly received from money at interest on any security or without security, or from stocks, or any other investment, and whether such gains or profits are divided or distributed or not, including items of foreign income as well as income from domestic sources.

(d) Income from, but not the value of property acquired by gift, bequest, devise, or descent, received directly or through trustees, executors, administrators or financial agents;

(e) The income from but not the proceeds of life insurance policies paid on the death of the person insured, royalties from mines, oil, and gas wells.

And last, "the annual profit or gain from any other source."

All corporations and individuals carrying on business, singly or as a partnership, will require to value their accounts receivable at the end of the period for the purpose of the returns, and in case of a partnership each partner will require to show his part as gross income. Allowance will be made for amounts received during the year but actually earned prior to 1st January, 1917. That will not apply to any year in the future, but the Act has to have some starting point, therefore the Department holds that the income taxable is that which properly accrued since Dec. 31st, 1916.

Question—Not for the fiscal year?

A.—No, we had to make a dividing line to start from, therefore the Department ruled that companies that had their accounting period between the 1st January, 1917, and the 30th June, 1917, need not file returns for 1917, and that companies having accounting periods ending after 30th June would file returns for 1917 period.

Bonuses paid to employees are income of the calendar year in which they are received, without regard to any fiscal year or other period in respect of which they may have been earned or paid. All persons in receipt of free rent, or board, or similar perquisites shall add to the amount of their income for taxable purposes the reasonable value thereof, because the Act provides that personal and living expenses shall not be taken as a deduction.

The farmer is required to add to his net income the value of the goods that he and his family have consumed. And I want to say here that there have been hundreds of assessments made against farmers. The other day an assessment of nearly $5,000 was made in respect of 1917 income against a farmer.

Preferred dividends are not a proper deduction from the income of a corporation. Stock dividends stand in the same position as cash dividends for the purpose of the tax.

The income received from Canadian industrial bonds, even though expressed to be issued tax free, will be considered income subject to taxation. Royalties paid to a proprietor by those allowed to develop or use property is to be accounted for as income. No deduction can be allowed from the income of the Canadian branch of a foreign company in respect to tax paid thereon to the foreign government. Taxes paid by persons resident in Canada to foreign governments in respect of income arising within the jurisdiction of the foreign government may be deducted in determining taxable income. Except where the buying and selling of securities is the main occupation of the taxpayer profits or losses on stock transactions must not be taken into consideration in determining taxable income, neither should losses sustained through endorsing notes. Profits or losses of real estate corporations on sales prior to the commencement of the 1917 accounting period will not be taken into account for income tax purposes. Contingent reserves set aside to provide against possible future losses are not a proper deduction from income. Money advanced by a mortgagee for protection of his security is a proper deduction from mortgage interest income, and when repaid will be taxable income for the year in which it is repaid, in addition to the interest received on the mortgage. Annual life insurance premiums paid by a corporation for insurance on the life of its officers cannot be deducted as a business expense.

Depreciation consists of a reasonable allowance for the wear and tear of property arising out of its use or employment, the amount allowed will be the amount of the loss occurring during the year to which the returns relate, estimated on the cost and the estimated lifetime of the property with respect to which such deduction is claimed.

There are many other points, but I think it well if I close my remarks here and allow you gentlemen to ask questions concerning points which have not been made clear.

Q.—Re Sec. 3, Business Profits War Tax Act, 1916, as amended to include companies with capital exceeding $25,000 and not $50,000, with the exemption of 10% and the tax of 25%, is it the intention of the Department to apply the graded tax to this class of companies, passing an Order-in-Council as a further amendment to Sec. 3?

A.—The Governor-in-Council has under certain legislation power to modify certain taxes, but Parliament reserves to itself the right to impose taxation. Parliament in this case has imposed a certain rate of taxaton, and I doubt very much if the Governor-in-Council has any power to alter it.

Q.—Re Par. a, Sec. 3, the original was repealed and a new paragraph substituted which concludes with the following words: "but in computing the profits of his business no taxpayer shall include any tax paid under the said Acts in the expenses of his business."

A.—"The said Acts" include part 1, Special War Revenue Act, 1915, and the Income War Tax Act, 1917. If the taxes paid under these Acts were treated as an expense the taxpayer would be getting the amount both as an expense and also getting the benefit of the full amount as a reduction of the tax under the Business Profits War Tax Act.

Q.—The reason I ask that is that it was rumored that the principle which you say has been adopted by the Department, would be changed.

A.—I may say that the principle of treating the tax paid as an expense of the following period could not very well be departed from at this time without doing an injustice to thousands of taxpayers. I do not think there is any probability of it being changed while the Act is in force.

Q.—Is it the intention of the Department to regard the tax as a distribution of profits rather than an item of business expense, and if so will this apply to tax paid under the Business Profits War Tax Act accretion of capital during the fiscal year, and reduction of capital by dividends paid? Is it the practice of the Department to regard the profits of a business as being made only at the close of the fiscal year, and payment of dividends as being a reduction of capital at the time the dividend is paid?

A.—For the purpose of capital it is the accumulated profits at the commencement of the period. The Act states that the dividends paid during the accounting period shall be considered as a reduction of unimpaired reserve, rest, or accumulated profits, not of the capital itself.

Q.—It amounts to the same thing?

A.—No, it does not.

Q.—In calculating the amount of the capital exemption?

A.—Yes, but in cases where the dividend paid has been more than the accumulated profits on hand at the commencement of the period the capital stock is not impaired in any way.

Q.—But in this case the dividend may be paid for the current year and paid quarterly, but the exemption is allowed of the amount of the fully paid up capital.

A.—Plus the amount of the accumulated profits that remain in the business; that is, if it is paid quarterly deduct the first three months, all accumulated profits left are treated as capital, then we deduct the amount of the dividend from that profit and continue the balance for the next three months.

Q.—You presume there has been no profit for the first three months?

A.—We do not presume anything; the Act decides.

Q.—If the profit and loss account of a company determines the profits quarterly, can these quarterly profits be added to capital for the purpose of claiming an exemption as an offset to the reduction caused by the payment of the dividend?

A.—No, that would be contrary to the provisions of the Act.

Q.—Is a stock dividend declared and paid out of surplus (created out of profits of years previous to the Income Tax legislation) subject to individual income tax? That is, will the individual have to pay income tax on this stock dividend?

A.—No.

Q.—How should a company with a capital of $40,000 at the beginning of 1918 be taxed?

A.—Be taxed on its profits in excess of 10% of its capital employed to the extent of 25% of those profits. There is a question here covering several pages relating to the income tax. I will put it in my pocket and send a written answer.

Q.—With reference to the ruling that in the computation of capital goodwill is not allowed except in so far as it can be proved to be represented by actual cash expenditure, and in view of the fact that the principal asset of a trade paper publishing company is its goodwill, it is represented that to strike out goodwill would be unfair. Where the property has always been in the hands of one company it might be fair to take the loss which such companies invariably make in the early years as actual expenditure on goodwill, but where the property has changed hands several times, as often happens, it may be impossible to ascertain the exact aggregate of such expenditure.

A.—The viewpoint of the Department is that goodwill cannot be treated as an asset. If it were so treated, every company would have a right to it. Therefore unless special circumstances warrant a departure from that rule, goodwill cannot be regarded as an asset. There may be cases where goodwill is represented by actual cash expenditure for which there is no asset; in such cases it would be fair to consider what proportion of the asset claimed to be goodwill is represented by that cash expenditure. Each such case would have to be treated on its merits, but the general rule is that goodwill cannot be treated as an asset, because it is nothing more than watered stock, and I do not think there is anyone who considers that any value should be placed on watered stock.

Q.—We understand the principle, but this is a general class of business which it is submitted is an exception, and that it would be a distinct hardship if goodwill was not allowed as an asset in their case. Such publications could not be acquired in the market at anything like the value of their physical assets only.

A.—That is true in regard to publications owned by a company, but the same treatment would have to be accorded to those owned by a private party or partnership; the mere fact of being incorporated as a company should not allow that company to set up one or two hundred thousand dollars for goodwill, and the partnership nothing.

Q.—An industrial company holds real estate, and sells for cash a part of its land not required for its business. Many companies in B.C. are like this. The company declares a dividend out of this special profit in real estate. This dividend I claim is not subject to tax, but how does it affect the shareholders liable to the supertax?

A.—The receipt of that dividend by a shareholder would be a return of capital largely; it is only actual income that would be taxable. The Act provides that there shall be an allowance made for depletion of mines, etc. The same principle has to be extended to timber limits, and the depletion of real estate, etc. It is a question of fact what proportion of that is income and what proportion return of capital.

Q.—A large company holds a big line of war bonds and declares a stock dividend out of the interest received thereon by buying and distributing further war bonds. It is presumed that this dividend is not subject to income tax.

A.—If the bonds have been issued by the Dominion Government tax free, the Department cannot tax the income derived from them, whether paid in cash, or stock dividend, or however paid.

Q.—In case of a concern selling their product on long deferred payments, such as a retail piano business, is it your ruling that the taxable profits consist of the surplus added as a result of the sales during the accounting period, or of the realized profits actually received, whether the sales were made during that period or in earlier years?

A.—It is the profit made during the accounting period that is taxable. A merchant engaged in that business should set aside a reasonable reserve for bad debts, and it is net profits that are taxable.

Q.—I happen to know that your ruling is different from that of the U. S. Government.

A.—We are not guided by that.

Q.—Is that a ruling of the Department, or have I only got that ruling from the local office?

A.—If the local officer gave a ruling such as I have now stated, he will be sustained.

(Oral questions.)

Q.—That matter about provision for future losses. Now, the case of the piano dealer who has the sale notes on his books, and who wisely makes provision for the losses he may sustain on the notes taken that year. Is that a provision for future losses?

A.—That is a current loss; it is the amount applying to that period. The Income Tax Act came into force January 1st, 1917.

All accounts receivable on the books of the taxpayer at that date are capital. Now we only want to tax the income that has properly accrued for the 1917 accounting period, the net profits for that period are what is taxable, and against the sales of that period they should set aside sufficient reserve to meet the bad debts of that period.

Q.—Certain legislation was enacted by which certain industries were practically ruled out of business, the distilleries, the breweries; how would you propose to deal with the depreciation down to the vanishing point of the investment in those industries?

A.—I wish to say that conditions that prevail, say in B.C., are entirely different from conditions in Quebec, the breweries are still doing business in Quebec. The Act provides that the profits made during each and every accounting period shall be taxable. Each accounting period must be taken by itself. But I can understand a brewer, or even a merchant engaged in the wine and spirit business, having a great many accounts on his books which would have been perfectly good if the business had continued, but which as a result of the prohibition legislation have become worthless. In the adjustment of the assessment those worthless accounts must be considered.

Q.—But as to land, buildings and plant?

A.—The plant has to be depreciated by a reasonable amount, there is a certain residual value. That is a question of fact in each case, you cannot make a general rule.

Q.—Have you in mind in that connection the depreciation allowed persons who created works for the manufacture of munitions of war, where the Government allowed such a price for the product as would enable them to write off the whole plant, besides a reasonable profit?

A.—Well, that arrangement was by the Imperial Munitions Board, not the Dominion Government. According to rumor they had two classes of contracts. One was at a certain price which included the cost of installing the machinery; the other did not.

Q.—Referring to the business profits tax, a partnership is subject to the normal and super-tax?

A.—No, that is under the Income Tax Act.

Q.—Yes, a partnership is subject to both normal and super-tax; a company is not; and in the discussion before the House it was stated that you propose to equalize that by taxing the man who receives the dividend. How do you propose to overcome the possibility whereby under that state of things the company can undersell a partnership to the extent of the difference?

A.—The question you raise is one with respect to legislation; I am only dealing with the administration of the Act. But

I would point out that to a certain extent that has been remedied; that in respect to the accouning periods of 1918 and thereafter the tax paid by the corporation will be 6% instead of 4%. 4% is the normal tax, and the shareholder will only receive credit to that extent, not for the 6%, so there is a difference of 2%.

Q.—As to the publication of the rulings of the Department and also whether anything has been done with respect to the issue of a primer on the income tax, such as that issued by the Treasury Department of the United States?

A.—Both of these matters have been considered by the Department; the rulings have been collaborated, and an Income Tax Primer has been prepared, but it was considered advisable, as the Income War Tax Act is a new Act, not to issue a primer or book of rulings until the Act had been in operation for a period. I expect both will be issued at an early date, and after that the rulings under the Income War Tax Act will be published monthly, and I shall see that the Secretary of the Chartered Accountants' Association receives a copy.

Q.—A lumber concern with a large plant, whose share capital is, say $100,000, with a bond liability of $75,000, secured by a mortgage on all their property except lumber and stock in trade, and with a large loan liability unsecured, a few years ago bought a portable mill for $50,000, used in the course of their business, and it of course came under this mortgage. They have since sold this mill for, say $150,000, which amount was appropriated to the liquidation of the unsecured loan. No depreciation has been charged against profit and loss for any of the years on fixed plant and machinery, and no dividends ever paid. Would this apparent profit of $100,000 be taxable?

A.—If the total assets were sold outright that is a sale of capital, it is not profits from operation. It is the sale of a capital asset.

Q.—Suppose the sale of capital assets produces a large profit, is that taxable?

A.—The profits taxable are profits earned in the operation of the business.

Q.—Suppose someone bought a boat for $50,000 and sold it for $200,000, is that profit taxable?

A.—Unless the business of the person is buying and selling boats, no. And that is in accordance with the decision of the Privy Council in Great Britain. Take the Hudson's Bay Co., they have a large area of land, they are selling it, the decision of the Privy Council is that they are a trading company and the profits made in respect of that land is not income for income tax purposes in Great Britain; it is the return of capital.

THE COMPANIES' ACT:

With Particular Reference to the Bonanza Case.*

By Thomas Mulvey, K.C.
Under Secretary of State.

I HOPE to lay before you some interesting developments in company law during the last few years and months. It is a great pleasure to have this opportunity of addressing this Convention; I can recall many occasions in Toronto addressing the Ontario Association, and I know that in the framing of the Ontario Act as far back as 1907 very many satisfactory suggestions were made by the Chartered Accountants which have stood the test since that time. It is, however, with very considerable diffidence that I take up this subject, because the observations I propose making are very largely in conflict with a recent decision of the Appeal Division of the Supreme Court of Ontario. I am here as an individual, not in any official capacity, and I think the question is one of very great interest to the business community, so for that reason I venture to express the opinions that I will lay before you this afternoon.

The subject arises in connection with the case of Edwards v. Blackmore, which has not yet been reported in the regular reports; it was decided in February. The facts are about these: A company named Burks Limited was incorporated to carry on the business of a real estate company. The action was brought on a promissory note given for machinery for pressing clothes, and for patent rights connected with this machinery. Now there might be circumstances in which a real estate company would buy machinery for pressing pants, but it is rather difficult to follow that idea. It might be that such a company, employing a large number of men, and as part of their contract of service agreeing to board and clothe them and look after their clothes, might as an economical necessity buy machinery to press their pants, but the circumstances in this case do not, I think, go that far.

The decision given is based upon that of the Judicial Committee of the Privy Council in the Bonanza Creek Mining Company case. I will not read much, but I think it advisable to read a few lines from that judgment.

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*An address delivered at the Annual Convention of the Dominion Association of Chartered Accountants, Montreal, Sept. 19th, 1918.

EDWARDS V. BLACKMORE.

"A corporation created by charter had at common law almost unlimited capacity to contract; statements in the charter defining the objects of incorporation do not take away that unlimited capacity; and even express restrictions in the charter do not take it away, but are simply treated as a declaration of the Crown's pleasure in reference to the purposes beyond which the capacity of the corporation is not to be exercised, a breach of which declaration gives the Crown a right to annul the charter.

"It was suggested that, even if the contract of purchase was intra vires the company, it was ultra vires the directors and president and general manager of the company. But the contract was made under the seal of the company, was executed by the delivery of the machinery, and was made by and with the president and general manager of the company, and it was not made out or found that the plaintiff acted in bad faith or had notice or knowledge that the contract was beyond the objects of the company as expressed in the charter; and, because the contract was under seal and was an executed contract, and because the president and general manager had apparent authority to execute it and make the note sued on, he had, so far as the plaintiff was concerned, actual authority to do so: National Malleable Castings Co. v. Smith's Falls Malleable Castings Co. (1907), 14 O.L.R. 22, 30; Biggerstaff v. Rowatt's Wharf Limited, (1896) 2 Ch. 93; County of Gloucester Bank v. Rudry Merthyr Steam and House Coal Colliery Co., (1895) 1 Ch. 629.

"The appeal should be dismissed with costs."—*The Ontario Weekly Notes,* Vol. 13, p. 424.

Now the logical conclusion from that judgment is that the directors of a company may enter into any business whatever on behalf of the company, divert the money subscribed by the shareholders to any purpose they see fit; so that an ordinary mercantile or manufacturing company might find its funds tied up in real estate or mining ventures or any other objects the directors choose.

If that is the conclusion to draw from this judgment, then company promotion and the carrying on business by means of joint stock companies is practically put an end to, because I do not think many business men would venture their money in a concern which might use it for a purpose altogether different from what they intended.

I do not believe that is a proper conclusion to draw from the Bonanza case. In order to deal with the matter fully it is necessary to consider the whole subject of company organization from the historical viewpoint, and to trace the law not only in England and Canada down to the Bonanza case, but to analyze it with respect to that decision. I propose first to consider what a common law company is, that is one conclusion of the Bonanza case, that a company incorporated under the Dominion or Ontario Acts has the capacity of a charter or common law company. Next the history of the purpose and objects clause which is usually included in charters, that is directly referred to in this judgment in Edwards v. Blackmore. There it is stated in effect that the object and purposes clause may be disregarded in construing the effect of a contract entered into by a company.

The development of company methods in Canada has been somewhat different from that in Great Britain, and it is necessary to trace and contrast them. Then I wish to go more particularly into the judgment in the Ashbury Ry. and Carriage Co. v. Riche case; that as you know has been the leading case in company law for the last fifty years, it has been practically set aside by this decision, and it is necessary to analyze it to find its exact application to Canadian companies. It will be necessary then to consider the Bonanza case in detail and draw our conclusions from it.

Now as to the nature of a common law company; as that is what the Bonanza case decides a Canadian company is. I may say that business by companies is not by any means a modern idea, I think it goes back to the royal times of Rome, Numa Pompilius was, I think, the man who originated companies, at any rate while that may be traditional we know that companies were organized and exploited in the later days of the Roman Republic, perhaps to as great an extent as at the present time. But I only refer to that in passing; it is the common law company of England that is dealt with in the Bonanza case. We can trace the history of these companies away back to medieval times, the guilds, the chapters of the various cathedrals, the colleges, the municipalities, and other medieval organizations, were all established under royal charter, that is, the common law company. The more modern companies did not come into existence until after the discovery of America, it was about that time that the colonization and trading companies, doing business all over the world, came into vogue; we have the Levant Co., the Russian Co., the East India Co., the Hudson's Bay Co.; I think all the London water companies were established by Royal charter. In fact that was the only method of incorporation at that time. Now in studying the management of these companies we would usually resort to the decisions of the Courts. It is generally in a fight that we see the bottom of things. The Courts in regulating disputes would lay down the principles of their management. But unfortunately there are very few cases in the decisions of the English Courts on this subject, there are a few which relate to the transmission of shares, some that relate to the passing of by-laws, but nearly all the litigation which took place relates more to what in modern times would come within the sphere of municipal law, town and borough litigation. So that there is very little to be found in the cases decided by the Courts to assist us. Then if we turn to the history of these companies, there are several books very carefully written, but relating more to their trading and dealing, so that gives little help. But there is one point I think may be clearly stated, that the management of these companies was very different from the management of a modern company. For instance, in the early days of these trading companies there was no fixed capital. The East India Co., established I think in 1600, had a separate capital subscribed for each of their first 14 voyages, from the years 1600 to 1614, and the profits and capital were distributed when each voyage was completed. It was not until 1634 that the first permanent capital was subscribed, and even that was not a permanent capital in the sense that we have it now; as a matter of fact, in the course of about 25 years there were four or five joint stock capitals subscribed by the East India Company. Periodically that capital was distributed among the members, and a new start made. Now that shows an essential difference between companies of that class and our companies. It shows that the shareholders had more control over the affairs. In modern companies it is the directors who control and manage, and once a year they come back to the shareholders and report and then if they are approved of, go back and carry on the business. Also, in modern companies, by-laws are passed by the directors, they were passed by the shareholders in common law companies; that indicates another difference.

Now in applying the principle laid down in the Bonanza case that a Canadian company is a common law company, we must take into account these differences in management, and this, as a matter of fact, does not appear to have been considered. I think I need not go farther into that particular point, as it leads up to what I propose suggesting respecting this decision later on.

The next point is the objects and purposes clause. It is intended to state the business for which the company is to be carried on. In reading the common law charters we find very little reference to the purposes and objects. Here in Canada it is difficult to obtain access to many of these charters; that of the Hudson's Bay Co. is available, the objects of that company are set out in, I think, four or five lines, yet we know the extent of business carried on. Sutton Hospital also has its purposes and objects stated in a very few lines. Take the British South Africa Company, incorporated by Royal charter in 1889, its purposes and objects were more extensive, 15 clauses; we know the extent of the business of that company, practically the sovereign of a large extent of territory in South Africa. We have to go farther then to find the development of this purposes and objects clause as we have it in our present charters. It is difficult, as I say, to trace that history; I know of no historical treatise on the subject. Here in Canada there is no place where you can refer to the original documents. But there are two or three outstanding points which I think indicate how it originated, and the purpose for which it was devised. You remember the "Bubble Act" was passed in 1720. They had in England at that time such a carnival of speculation as was never known before, South Sea shares were sold at impossible prices. The excesses of the wheat pit or the pork pit are not to be compared with what was done at that time. In consequence, public opinion in England arose to such an extent that they wanted to do away with joint stock companies altogether. That was one purpose that the Bubble Act was aimed at. It did not as a matter of fact prevent the incorporation of companies, but it tended to prevent the easy methods which formerly prevailed. The carrying on of business by means of companies was shown to be a natural method, the history of commerce in England shows it to be the convenient and proper method for raising capital for carrying on extensive enterprises. So while the Bubble Act stopped the creation of so many companies, it did not stop the carrying on of business by that method. But instead of incorporating, they established large partnerships, with large numbers of members, and different classes of partners, and that in fact brought the company back to be dealt with on the principles of partnership law. Now it is one of the essential principles of a partnership that a partner is an agent for the partnership only for a contract that is within the partnership business, and the partnership business is defined and set out in the deed of settlement, and there it is that we find the development of the object and purposes clause as we have it now. The business of the partnership was definitely and exactly set forth. A partner was the agent of the partnership in any transaction which could be brought within that definition. The early legislation of the 19th century in England was largely for the purpose of regulating these large partnerships, devising methods by which they could be sued, and could sue, establishing a registered agent for the partnership, etc. But as the 19th century advanced it was found that these methods were not satisfactory. A more extensive Companies' Act was passed in 1858, and then the Companies' Act practically as we have it at the present time was passed in 1862. But as in everything else in life you have to look to the past for a proper definition of the present, so you have to look back to these deeds of settlement, to the methods which were adopted and prevailed prior to 1862, to find out what the provisions of that Act really mean.

In Canada a different current of inspiration prevailed. The Legislatures here obtained their inspiration from the United States, but the Courts always were under the influence of the English decisions. So we have two currents of company dealing in Canada. The early Canadian Companies Acts were taken largely from the corresponding statutes of New York State. When the British Colonies broke away from the United Kingdom they were largely at sea with respect to their method of incorporation, the method followed in England of incorporating by charter had prevailed, and after the Revolutionary war they continued a similar method, and, as a matter of fact, when the company law was adopted in Canada the United States method was followed. The first general Companies Act of the Province of Canada was passed in 1850 and provided only for registration. The Statute as we have it at present providing for incorporation by letters patent was passed in 1864, the letters patent there followed largely the letters patent granted by the King for the establishment of a common law company, following the post revolutionary methods of the United States.

Now these ideas should be retained in mind as we go on to develop the application of two or three decisions of the Courts which have an actual bearing on the subject in hand. The landmark in Company law since 1875 has been the case of Ashbury v. Riche. That case laid down what is known as the doctrine of ultra vires, which, in a word, is that it is incompetent for a company to carry on any business which is not within the purposes and objects clause of the charter. That was the decision laid down by the House of Lords in England. But it is a curious thing that the Privy Council have laid down for us, not the judgment of the House of Lords, but the judgment which was reversed by that judgment. The judgment in the Exchequer Chamber, that is practically laid down as our guide in interpreting charters and indicating the method by which company business should be carried on. It will be necessary therefore to consider not only the facts but the history of that case. We need not go into all the facts. The Ashbury Ry. Carriage and Iron Co. was incorporated under the English Act of 1862; it had very wide powers, but its main business was the construction of railway cars and equipment. They had large dealings with railways in Belgium. The plaintiff, Riche, had a concession for the building of a railway in Belgium and the directors of the Ashbury Co. concluded that it would be advisable for them, it may be as an outlet for their carriages, etc., to acquire this concession and build the road in Belgium. In course of time it came to be reported to the shareholders, and they were dissatisfied that this contract should be entered into, and took legal advice, and they were advised that the purchase of this concession was beyond the purposes of the company, and the company was incapable of entering into it. There were a number of meetings of shareholders, several reports, a special investigation was made of the affairs of the company and finally the litigation went on. It came first before the Exchequer Court on a reference from an Arbitrator, and it was left to the Court to decide the law applicable to the case. In the Exchequer Court it was decided that the plaintiff was entitled to recover for damages for breach of contract to carry out and operate this concession. It was then appealed to the Exchequer Chamber, and the Court was equally divided, and in that judgment Lord Justice Blackburn gave the judgment which has been adopted by the Privy Council in the Bonanza case, and it is to that judgment we should refer to find the law applicable to Canadian companies.

The case was then appealed to the House of Lords, and the judgment in the Exchequer Chamber and the initial judgment were reversed, and that judgment holds the doctrine of ultra vires that I stated, that it was beyond the competency of this company to enter into the contract to acquire this concession. That judgment has stood for the last fifty years almost as a landmark in company law wherever the method of incorporation adopted in England has prevailed. It was therefore with a considerable shock that the legal profession received the decision in the Bonanza case, because it upset all their notions respecting Company law.

It is necessary next to consider the development of the Bonanza case. The Bonanza case practically arose out of a contest between the Dominion and the Provinces respecting jurisdiction in incorporation of companies. The question first arose in 1907 in a case before the Supreme Court of Canada, C.P.R. v. Ottawa Fire Ins. Co. That was a case where C.P.R. sued an Ontario company for a loss by fire to standing timber in the State of Maine. One of the defences raised was that it was ultra vires of the insurance company to insure timber at all, next that it was beyond the power of the company to insure property in the State of Maine. Well, the Supreme Court directed that four questions should be argued, and counsel representing the Dominion and the Provinces discussed those questions. There was in fact no real decision of the questions, however. It was held on other grounds that the railway company was entitled to succeed. But immediately afterwards, in order to have this contest between the Dominion and the Provinces settled, the Governor-General in Council submitted questions to the Supreme Court, and one was as to the extent of the jurisdiction of the Dominion and also of the Provinces in the incorporation of companies. You remember the clause in the B.N.A. Act, I think 11, Sec. 92, by which the Provinces have authority to incorporate companies with Provincial objects. The bone of contention was the meaning of those words; it was argued on one side that a Provincial company had no authority whatever to carry on any business outside of the Province incorporating it. And on the other that the Dominion alone had the authority to incorporate a company intended to do business throughout the Dominion; and this clause authorized Provincial companies to carry on business only in the Province that incorporated them.

The case, as a matter of fact, was twice before the Privy Council; first on the contention of the Province that the Governor-in-Council had no right to refer such a question to the Supreme Court, and then, when that was decided in favor of the Dominion, it was again before the Privy Council with the Bonanza case. While this discussion was going on the subject-matter of the Bonanza case arose. The Bonanza Creek Mining Co. was a company incorporated by the Province of Ontario, and it carried on business in the Yukon. It was granted a free miner's license and a license under the Foreign Companies ordinance of the Yukon Territory, and also entered into contracts through the Department of the Interior for certain mining concessions there. What was the exact question in dispute it is unnecessary to state, but the Department of Justice appears to have taken this as a concrete case in which the whole question of the competency of the Provinces to create companies to carry on business outside of their limits should be disposed of, and it was carried to the Privy Council. The Lords of the Privy Council considered it to be a harsh case, their decision practically implies that, that as the Dominion Government entered into contracts with this company, and the Yukon Territory, which is largely controlled by the Department of the Interior, having also recognized it and granted it a license to carry on the business of mining, should not then repudiate the license given. Whether that is the truth of the matter it is difficult to say, but at any rate the Privy Council appeared bound to decide in favor of the company, hence their decision. That decision practically holds that a company incorporated under the Dominion or Ontario Companies Acts is a common law company, with the capacity of a natural person, that their objects or purposes clause does not limit them, as was understood following the Ashbury case; in fact, that the doctrine of ultra vires had been completely superseded. Now it is necessary to refer shortly to the exact words of some of these judgments in order to develop the argument upon it. After discussing the facts of the case, and the application of the decision of the House of Lords in the Ashbury case, the Lord Chancellor uses these words:—

THE BONANZA CREEK GOLD MINING CASE.

"The language may be such as to show an intention to confer on the corporation the general capacity which the common law ordinarily attaches to corporations created by charter. In such a case a construction like that adopted by Blackburn, J., will be the true one."—*Law Reports, Appeal Cases,* 1916, *page* 578.

Now the argument before the Privy Council, and also further references to which I need not draw your attention, clearly indicate that the judgment there referred to is the one I have already mentioned, namely, the judgment of Lord Blackburn in the Exchequer Chamber, the one that was over-ruled by the House of Lords. Going on, he further says:—

"It appears to them that the doctrine of Ashbury Railway Carriage and Iron Co. v. Riche (1) does not apply where, as here, the company purports to derive its existence from the act of the Sovereign and not merely from the words of the regulating statute. No doubt the grant of a charter could not have been validly made in contravention of the provisions of the Act. But, if validly granted, it appears to their Lordships that the charter conferred on the company a status resembling that of a corporation at common law, subject to the restrictions which are imposed on its proceedings."—*Law Reports, Appeal Cases* 1916, *page* 582.

"But the companies to which Part I applies are, like those under the old statute, to be incorporated by letters patent, the only material difference being that the Act enables these to be granted by the Secretary of State under his own seal of office. When granted by sec. 5 they constitute the shareholders a body corporate and politic for any of the purposes or objects, with certain exceptions, to which the legislative authority of the Parliament of Canada extends. The Sovereign, through the medium of the Governor-General, in this way delegates the power of incorporation, subject to restrictions on its exercise, to the Secretary of State, and it is by the exercise of the executive power of the Sovereign that the company is brought into existence."—*Law Reports, Appeal Cases* 1916, *page* 583.

That refers more particularly to the company in question, that is, the company incorporated under the Provincial Statutes, but it also goes on to make similar applications to a company incorporated under the Dominion Act. I think the argument before the Judicial Committee of the Privy Council clearly indicates that they had in mind in coming to this decision the kind of company Lord Justice Blackburn had when he gave that judgment I referred to in the Exchequer Chamber. In order to see exactly what that is, I wish to read a very few extracts from the judgment in question.

RICHE v. ASHBURY RAILWAY CARRIAGE CO.

"Up to a certain extent I believe there is no doubt as to the effect of the incorporation of a company under the Companies Act of 1862. The company is a corporation, and it is a partnership for trading purposes, for the objects for which the company is established. And by the articles in this case, as in almost all others, the management of the company's business is confided exclusively to a board of directors. And I apprehend that it is clear that this board have the same authority to bind the company in the managing the company's business that a partner or manager in an ordinary partnership, established at common law for the same objects, would have to bind the firm; an authority which to be valid must be exercised in cases within the scope of the ordinary business and transactions of the firm: see Story on Partnership, ss. 110, 111, 112, 113. If the board in a joint stock company, or a partner in a common law partnership, make a contract beyond their authority, it does not bind the company in the one case, or the firm in the other. This is only applying the general law as to principal and agent to the particular case of a board acting as agents for an incorporated company. So far I believe there is no difference of opinion."—*Law Reports, Exchequer Cases, Vol. IX.*, 1873-4, *page* 254.

You see the ideas they had at that time. It was a reversion to their former ideas of the partnership, as I indicated before. After referring to the Sutton Hospital case which laid down the principle that a common law company was not limited in any way respecting the business which it might carry on, he says:—

"This seems to me an express authority that at common law it is an incident to a corporation to use its common seal for the purpose of binding itself to anything to which a natural person could bind himself, and to deal with its property as a natural person might deal with his own. And further, that an attempt to forbid this on the part of the King, even by express negative words, does not bind at law. Nor am I aware of any authority in conflict with this case.

"If there are conditions contained in the charter that the corporation shall not do particular things, and these things are nevertheless done, it gives ground for a proceeding by sci. fa. in the name of the Crown to repeal the letters patent creating the corporation: see Reg. v. Eastern Archipelago Company. (1) But if the Crown take no such steps, it does not, as I conceive, lie in the mouth either of the corporation, or of the person who has contracted with it, to say that the contract into which they have entered was void as beyond the capacity of the corporation.

"I am aware of no decision by which a corporation at common law has been permitted to do so. I take it that the true rule of law is, that a corporation at common law has, as an incident given by law, the same power to contract, and subject to the same restrictions, that a natural person has. And this is important when we come to construe the statutes creating a corporation. For if it were true that a corporation at common law has a capacity to contract to the extent given it by the instrument creating it, and no further, the question would be, Does the statute creating the corporation by express provision, of by necessary implication, show an intention in the Legislature to confer upon this corporation capacity to make the contract? But if a body corporate has, as incident to it, a general capacity to contract, the question is, Does the statute creating the corporation by express provision, or necessary implication, show an intention in the Legislature to prohibit, and so avoid the making of, a contract of this particular kind?"—*Law Reports, Exchequer Cases, Vol. IX.*, 1873-4, *page* 263.

"The objects of the proposed company must, therefore, always remain the same; and that has, I think, two important effects. First, I think that if the company, as a body, propose to do anything beyond these objects, any one dissentient shareholder (who has not precluded himself from doing so) may prevent it from doing so.

"Secondly. No person can be entitled to fix the company with a contract made by the board for any purpose beyond those objects, on the ground that the board had an ostensible or apparent authority to make contracts of that kind, but must, in order to fix the company, at least prove an actual authority given to the board to make the particular contract he seeks to enforce."—*Law Reports, Exchequer Cases, Vol. IX.*, 1873-4, *page* 265.

"And I do not see any risk of a company practically carrying on business for other objects than those named in the memorandum. The difficulty of obtaining the assent of all shareholders, and of proving that it had been obtained, is so great that no sensible man would trust to that and deal with the company on those terms.

"But I do not think that we can ask what ought to have been enacted by the Legislature. Our duty is to declare what has been actually enacted."—*Law Reports, Exchequer Cases, Vol. IX.*, 1873-4, *page* 271.

Now that appears to me to give the real key to the decision which the Privy Council intended to give in the Bonanza case. The question of the authority of directors was not raised in the Bonanza case. The company was a mining company, and entered into a mining contract in the Yukon. The question of authority was raised in Ashbury v. Riche, and you see how it was dealt with by Lord Blackburn, and then we have the clear indication of the Privy Council in the Bonanza case that it was the kind of company that Lord Blackburn had in mind when he gave this decision that they intended to indicate a Canadian company to be.

Now dealing with the statement that a common law company may carry on business as a natural person, you have to take this into consideration, that no company can carry on business as a natural person. A company can carry on its business only through an agent. That is a fundamental principle of company law. The natural person need not carry on business through an agent, though he may if he wishes. The real point in issue that the Privy Council intended to decide was respecting the capacity of a company, not anything respecting the methods by which that capacity should be exercised. Now this decision of the Appellate Division in Ontario goes away beyond that, it holds that while the capacity of the company is unlimited, that the capacity of the directors to act on behalf of the company is unlimited also. There seems to be no warrant whatever for that decision. Undoubtedly the authority of the directors and the capacity of the company were co-terminous under the law as we formerly knew it. The company could carry on what business was set out in the charter, and the directors were the agents for the company to that extent. It does not follow that because you increase the capacity of the company you also increase the capacity of the directors. When we go back to this decision of Lord Blackburn in Ashbury v. Riche we find quite the contrary intended. Lord Blackburn held that the directors of the company could carry out any transaction which was set out in the memorandum. When a transaction was beyond that the company nevertheless could do it, but the shareholders everyone must assent. Just as every partner in a partnership must assent to any transaction which was beyond the deed of settlement. There is one criticism which may be offered to that; away back in 1849 the Parliament of the Province of Canada enacted that the majority of the shareholders of any corporation could bind the minority. That has stood on the statute books and is there still. That shows, as I indicated, a difference in drift in company affairs in Canada from that in England; in Canada we have always maintained that a majority rules in a company. Lord Blackburn had the other idea, that where it was beyond the authority of the directors, every shareholder must assent. His idea was that where the directors went beyond what is in the memorandum they must go to the shareholders; that is the essential point. That is the idea which I wish to lay before you; it is merely my argument, I do not know whether it will prevail. If the Courts follow the judgment of the Appellate Division of Ontario, then company law has gone to pieces; either that or it will require legislation to put company affairs in such a position that investors will deal with companies and invest their money in them, and that corporate activities will continue to be carried on. I wish then merely to summarize in a few words the arguments I have adduced, the proposition I intended to lay down.

1. The Bonanza Creek Mining Company Case holds that Canadian companies have the nature of common law or chartered companies and that the purposes or objects are not limited by any statement thereof in the charter.

2. The Bonanza Creek Mining Company's Case made no reference to the authority of the directors to carry on the business of the company, but indicated in adopting the judgment of Lord Justice Blackburn in Riche v. Ashbury Carriage Company in the Exchequer Chamber as the true construction to be followed.

3. The contract in question in Riche v. Ashbury Carriage Company was beyond the purposes or objects of the company in its memorandum of association, but was upheld by Lord Justice Blackburn because it had been unanimously approved of by the shareholders. In reaching this conclusion Blackburn, L. J., appears to have relied upon this approval and he stated that there would be no harmful consequences in such a construction because in the application of it the approval of the unanimous shareholders would always be required in entering into a contract beyond the purposes or objects set out in the memorandum of association.

4. While this construction may not be in terms applicable to a Canadian company because under the Interpretation Act a majority of the shareholders may bind the company. It must be considered in the application of the decision in the Bonanza Creek Mining Company Case to Canadian companies.

5. The correct deduction to be taken from the Bonanza Creek Mining Company Case is that while the capacity of Canadian companies is unlimited, that capacity may be exercised in matters beyond the purposes or objects set out in the charter only with the approval of a majority of the shareholders.

6. In the dealings of Canadian companies the authority of the directors is limited to the purposes or objects set out in the charter, and transactions beyond the expressed purposes or objects are not within the authority of the directors as agents of the company.

7. While the doctrine of ultra vires is put at an end by the Bonanza Creek Mining Company Case in its application to the capacity of Canadian companies, the case law on the subject is still applicable to the authority of the directors.

8. The case Edwards v. Blackmore, while it may be upheld upon other grounds, is in error in holding that because the Presi-

dent and General Manager entered into the contract and affixed the seal of the company, it bound the company.

9. There was no consideration in this case of any differences in management of common law and Canadian companies, and the law formerly held applicable to the latter was taken to govern the former without any study or explanation of their essential differences.

10. The general application of the judgment in Edwards v. Blackmore would undermine public confidence in company management, and if it is on further consideration held to be the law, legislation should be enacted for the purpose of defining and regulating the authority of company directors.

I consider this to be a matter of considerable importance in relation to business, and one which should receive discussion, and it is for that reason that I am very glad of the opportunity to lay it before you to-day. I do not know if I have succeeded in making myself quite clear in all that I have stated, but I shall be very glad to go into the matter in any detail.

DISCUSSION.

Question—Have you considered how we are going to get over that view as held in the Bonanza case, about all our companies being common law companies; it is rather foreign to the whole spirit of our company legislation?

Answer—The answer to that I think follows directly from the decision of Lord Blackburn that I have referred to. He in fact discusses that very question in one of the references which I read: "And I do not see any risk of a company practically carrying on business for other objects than those named in the memorandum. The difficulty of obtaining the assent of all shareholders, and of proving that it had been obtained, is so great that no sensible man would trust to that and deal with the company on those terms."

The result of that is this; the memorandum set out in the charter of an Ontario or a Dominion company is published in the Gazette, that shows the extent to which the directors may obligate the company. If the contract proposed is not within that memorandum, then the person dealing with the company must have the matter submitted to a general meeting of the shareholders. Applying that to the Edwards v. Blackmore case, there the company was held by a contract which was outside altogether of the memorandum, and it was not shown that the shareholders had approved, nevertheless the Court held that the company was bound. According to Lord Blackburn's decision they would not be bound unless the shareholders had approved.

Q.—According to your view then it would require a majority of all the shareholders in Canadian companies to enter into a contract foreign to the objects and purposes as published? Take the case of an innocent shareholder, who thought he was going into, say, a cement business, and by reason of a majority approving a contract to purchase sewing machines, he would be bound to leave his money there. Is that a condition that should be tolerated?

A.—That point is quite arguable; however there is one condition which we all labor under, that is, that a majority rules in company matters on all occasions in Canada, unanimity is not required. It is quite practicable for a majority to divert a company from its intended objects and practically take away the money subscribed by a minority, on this decision.

Q.—The incorporated company, as I understand it, is a creature of the law, has no existence apart from the law that gives it its charter. The shareholder subscribes for shares in that company according to its charter of incorporation, which brought it into existence to carry out certain objects therein defined. Now I think he should be protected in that respect by the Government; I do not see that a majority should have power to divert the company to some other purpose.

A.—That is what the law was understood by everyone to be before the Bonanza case. We are discussing that case now for the purpose of deciding whether remedial legislation is necessary. I did not intend laying before you a suggestion in regard to what legislation should be enacted, I merely wanted to lay before you the conditions that have arisen from this decision. It is a question for public opinion whether legislation should be introduced to put us back where we thought we were.

Q.—Might I ask what you would suggest to us as accountants in case we find in the course of our work that companies are going into other enterprises than the charter permits?

A.—I think it is the duty of the auditor, representing the shareholders, to expressly state such a condition in his certificate on the balance sheet. Of course if my argument is good, if the directors go beyond the purposes or objects set out in the charter, they do so at their own risk; if there is a loss occasioned they are personally liable, just as an agent who goes beyond his authority in dealing for his principal.

Q.—There seems to be a tendency on the part of solicitors in incorporating companies to make the aims and purposes of the company as wide as possible. What would be your view of that?

A.—It is very fortunate that within the last few months that question has been before the House of Lords in England, in the case of Cottman v. Brougham. I will not undertake to give all the facts of that case, but it arose out of an underwriting contract which one company undertook for the purpose of assisting another. The point for consideration was whether such a contract was within the purposes or objects of the company. Now the English Courts have always held that the purposes and objects of the company are what are set out in the first paragraph of the "purposes and objects," that the other purposes and objects are ancillary, merely for the purpose of enabling the company to effectively carry out what is stated in the first paragraph. In this case there was an omnibus clause at the end, that the company might carry on any business indicated in any of these paragraphs as if they were independent objects, and because of that last clause the House of Lords held that the company was liable on this underwriting contract, although it was an independent matter not in any way connected with its business and could not be brought under the first paragraph. But the House of Lords passed very severely upon the practice of drafting objects in that way. Lord Wrenbury, better known as Lord Justice Buckley, the writer on Company Law, commented very severely on objects being drawn in that way, and I have had word from the Registrar of Joint Stock Companies to the effect that that paragraph will not hereafter be permitted. The rule laid down by the House of Lords was that the objects or purposes clause should state concisely the exact purposes for which the company was intended, and should be limited to what the company actually intended to do. That judgment is one well worthy of our consideration.

RECENT AMENDMENTS TO THE COMPANIES' ACT.

Some of these, introduced in 1917, are not generally known to the public, or to accountants or the legal profession, it seems. I can give one good reason for that view. There are about fifteen thousand companies incorporated under the Dominion Companies Act. A rough estimate would warrant one in saying, I think, that there are about six thousand effective companies in Canada at present. This amendment to the Act provides that every company shall make a return; so far we have returns from about five hundred. Whether this is done deliberately or through ignorance I do not know, but nearly every week I hear of someone who has just learned that this Act has been passed.

Q.—A form has been sent out?

A.—Well, forms will be sent to anyone who asks for them, but there are many companies whose Secretaries we do not know or that for various reasons we do not reach.

Now these 1917 amendments; the first one is not very important—it enables the company to enter into a new form of insurance, called inter-insurance, there was some doubt before as to whether a company could enter into that, and this amendment removes that doubt.

The next one does away with the advertising; a company incorporated now does not have to advertise in the local newspapers.

The next relates to reduction of capital. There was a difference of opinion about the Act as it formerly stood, whether paid-up capital could be paid back to the shareholders; there is no question about it now. Companies in fact may reorganize their capital in any way they wish; they can reduce it if the majority agree, and have the shareholders take debentures instead of their shares. They may pay off preference shares; that was first introduced in the Act of 1907 in Ontario, and it has been found to be a very convenient method of financing. It has this advantage over an issue of debentures, that dividends are not required to be paid on preference shares until they are earned, while interest has to be paid on debentures whether earned or not, and many companies went to the wall because they could not keep up their debenture interest. The dividends on the preference shares may be cumulative, and if the company is successful these preference shares may subsequently be retired. Such an issue may have a term added that the holders shall not vote while the interest is being promptly paid.

Q.—Do I understand that on application to your Department companies may repay to their shareholders capital to the extent that they want to reduce their capital?

A.—No, repayment to shareholders is accomplished through reduction of capital, and that can only take place by issue of supplementary letters patent. The purchase by a company of its own shares is illegal, it can only be legalized by supplementary letters patent.

But by far the most important amendment, and one which may cause very serious hardship if it is overlooked, is as to the registration of mortgages. Since Jan. 1st last a mortgage given to secure debentures or a floating charge must be registered in the Department of the Secretary of State, otherwise it is void as against a liquidator and against creditors. The registration must take place within thirty days of the making of the mortgage or the issue of the debentures. The time may be extended by the Courts. There have been very few of these mortgages registered, and I have serious feelings that trouble may arise in the future through people overlooking this requirement.

Q.—Does that apply to existing mortgages, or only new ones?

A.—Only to mortgages created after the 1st of January last.

The next amendment relates to filing of a prospectus. I think I need only mention that, because that is now required under nearly all Provincial Acts; it is now made applicable to Dominion companies also.

Another requirement is with respect to annual returns. These returns are not as extensive as those required either under the English or the Ontario Acts. It is merely a statement of the capital and the security issues and the names of the directors and officers; that should be filed before the 1st of June in each year, showing the affairs of the company as they stood on the 1st of April preceding.

Q.—The only change then in the form of that summary is the condition that the securities be shown?

A.—Practically.

Q.—Might I ask what provision is made for the appointment of an auditor in the event of that matter being overlooked at the annual meeting, and no demand being made on the Secretary of State by any shareholder?

A.—If the shareholders do not appoint an auditor in general meeting, and no shareholder is anxious to have one appointed, I do not see that anyone can complain; but there are provisions requiring the company in annual meeting to appoint an auditor, and if that is not done any shareholder may ask the Secretary of State to appoint one. The machinery is there.

Q.—Perhaps the creditors might be entitled to some consideration in the matter?

A.—I fancy the course for the creditor to take would be to ask for an audited statement.

There may be a further remedy, I think it would be a misfeasance of the directors, and if damage arose through neglect to carry out the provisions in that regard there is a possibility that they might be personally liable.

THE ALLIES.

The Frenchman faces shell and ball,
  In pants as red as flame;
The Scotchman wears no pants at all,
  But he gets there just the same.

—*Mooseheart Magazine.*

GOVERNMENTAL SINKING FUNDS, SERIAL BONDS AND DEPRECIATION RESERVES.*

By Harvey S. Chase, C.P.A.

MR. PRESIDENT AND GENTLEMEN OF THE ASSOCIATION:

Some months ago a friendly invitation came to me in Boston from your President, requesting me to prepare a paper on an accounting subject for this convention. In accepting this kindly invitation I chose the title of this address for the reason that I had intended for some time to write out conclusions reached by experience in reorganizing governmental accounting methods in various cities and States, as well as in Departments of the United States Government. This experience has extended over some twenty years, and, naturally, has embraced many sides and types of governmental accounts, only a small part of which can be condensed into a paper suitable to present to a Convention of Accountants.

I will, therefore, confine my address mainly to a few illustrations and explanations with the hope that many questions and comments may be brought out in discussion afterward. For this reason I have made the paper short, although there are many other equally interesting problems which I should have been glad to have referred to in it.

To come to my point at once, I will take for granted that we do not need, in this audience, to define either "sinking fund" or "serial bond," for these, I believe, have meanings which are almost universally accepted. "Depreciation," however, is a term which includes so many different interpretations that I must be more careful in my use of it, and must explain as clearly as possible what my application of it includes.

Some years ago (in 1911) I was retained by the Governor of the Commonwealth of Massachusetts to investigate the financial departments of the State government, and to report to him and to the Legislature concerning the accuracy and sufficiency of the accounting methods then in use. A series of reports resulted concerning one department after another in much the same fashion in which I had previously reported to the Mayor of Boston upon that city's financial affairs during previous years.

It has happened that my practice as a professional accountant has had largely to do with public matters, including public service utilities and municipal industries. I had necessarily made a thorough study of "depreciation," having been retained in a number of important cases of litigation as expert witness. These cases related to questions at issue between municipal governments and public service companies, such as the Boston Consolidated Gas case, the Holyoke Water case, the Haverhill Gas case, the Norwith Gas case, etc. All of these cases bore directly upon questions of depreciation.

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*Read at the Annual Meeting of the Dominion Association of Chartered Accountants, at Montreal, September 18th to 20th, 1918.

In the investigation of the department of the Treasurer and Receiver-General of Massachusetts a controversy arose concerning the condition of the sinking funds of the State, and hearings were held by the Joint Committee on Ways and Means of the Legislature (General Court, so called) at which I was called upon to testify.

Much of the testimony related to the methods then in vogue for calculating sinking funds. I had found then, as I have frequently found before and since, that the *actual* increments to the various sinking funds did not follow the *estimated* increments, and that, year by year, these funds were in deficiency or else in excess of the true accretions. In the nature of things this must be so. The earnings of investments can never be prophesied accurately in advance over twenty years or forty years, and for this and other reasons no sinking fund which I have investigated has been correctly built up in practice.

In order to do away with these inaccuracies, as well as the dangers of fraud or loss in sinking fund transactions, it has now become the established practice in the States to handle new issues of bonds for governmental purposes as "serial bonds," without sinking funds.

One of the questions which I wish particularly to bring to your attention in this paper relates to an alternative method for issuing sinking fund bonds which eliminates most of the inaccuracy and mystery and danger which are so frequently associated with sinking funds when handled in the old manner. This method includes annual payments into a fund which is kept separate and intact for the purpose of accumulating sufficient money to liquidate at maturity the bonds secured by the sinking fund. The annual payments, however, are calculated without reference to the earnings of the investments in the fund; they are equal portions of the bond issue according only to the number of years the bonds are to run. For instance, taking an issue of a million dollars of bonds to run forty years, the payment into the sinking fund each year of the forty years would be twenty-five thousand dollars, viz., $25,000.00 × 40 = $1,000,000.00.

This is, of course, simplicity itself—so far. It corresponds exactly with the annual payment of a portion of a serial bond issue, which might be identical with the above, viz., maturity of $25,000.00 of bonds each year for forty years. Your question naturally arises now, "What is done with the interest upon the investment of the money in the sinking fund?" The answer is equally simple: This interest income is used to pay—so far as it goes—the interest outgo on the bonds themselves. That is to say, the interest earned the first year is not added to the sinking fund, but is deposited in banks to meet in part the payment of the first coupons on the bonds—for the first interest period, the remainder of the coupons being met by general or specific appropriations for "interest," according to the usual practice. For the second year the interest earned is similarly used, and so on for each year the bonds run.

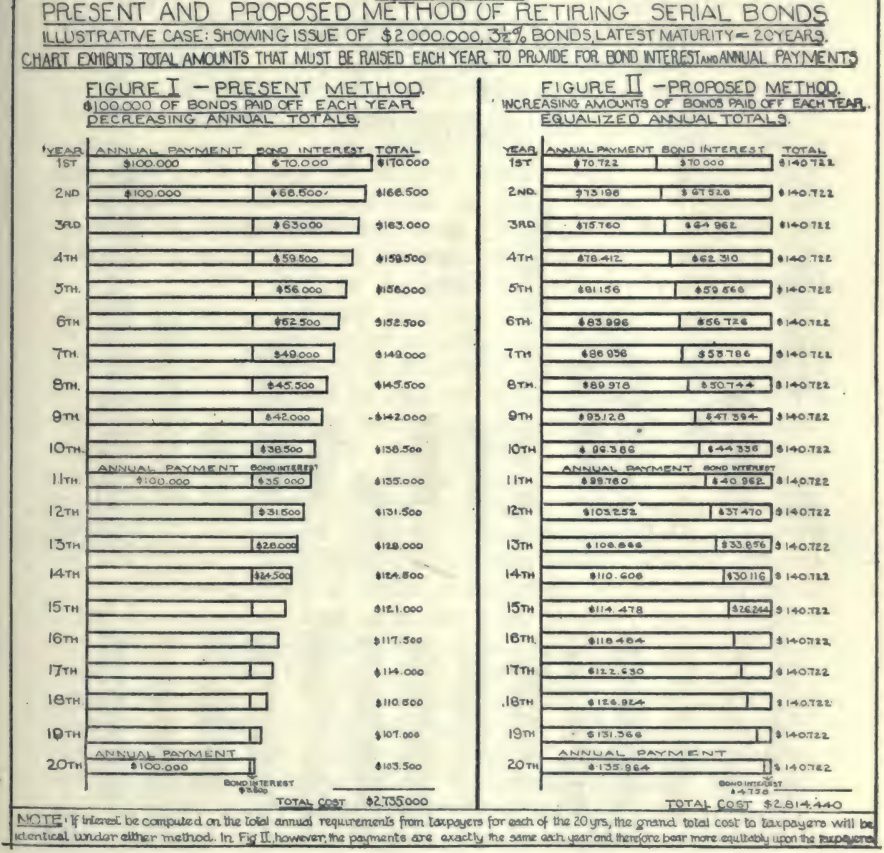
This is sound as a financial proposition, for interest earned is used to pay interest due, while the annual appropriations for meeting the principal at maturity are regular and equal each year. Moreover, this appropriation for the fund is easily computed, and cannot be forgotten or misappropriated without immediate evidence of such a fact becoming known to the most muddle-headed councilman or citizen.

Up to this point the elements of the problem are simple enough, but now come somewhat more intricate considerations. It is evident that, so far as the payments of principal go, each year of the life of the bonds lays an equal tribute upon the taxpayers; no more in one year than another—perfectly fair to the taxpayers of all the years. When we consider the interest payments, however, it is apparent that the earnings on the investments in the sinking fund during the first year will be only one-fortieth as much (or thereabouts) as the earnings on the investments in the fund during the last year of the series. Inasmuch as the taxpayers are required to provide for the interest outgo not met by the interest income, the burden upon the taxpayers for this difference of interest will be heavy in the early years and grow lighter each year as the series progresses, as the sinking fund investments grow larger and as the interest thereon (income) increases year by year.

The interest payments, therefore, by this plan would be unfairly thrown upon the taxpayers of the earlier years. In this fact the method suggested corresponds almost exactly with the conditions surrounding actual "serial bond" issues at present. For instance, the following chart (C—Figure I.) exhibits an issue of $2,000,000.00, 3½ per cent. serial bonds, running twenty years, $100,000.00 of which mature each year. The interest required upon the bonds outstanding decreases from $70,000.00 for the first year to $3,500.00 for the last year. The total requirement from the taxpayers for this issue varies, therefore, from $170,000.00 for the first year (including the serial maturity) to $103,500.00 for the last year, which is an unfair load upon the early years taxpayers and a lightening of the burden upon the later years taxpayers.

Figure II. of Chart C exhibits in contrast a method of equalizing the total requirements for capital repayments, plus interest payments. By reducing the amounts of serial bonds which mature annually in the early years and correspondingly increasing the amounts which mature annually in the later half of the period, an equalization of total tax requirements can be brought about as shown clearly in Figure II. In this way the first half of the period supplies an increasing total requirement from about 3½ per cent. of the total issue—maturing the first

CHART C.



NOTE: If interest be computed on the total annual requirements from taxpayers for each of the 20 yrs, the grand total cost to taxpayers will be identical under either method. In Fig II, however, the payments are exactly the same each year and therefore bear more equitably upon the taxpayers.

year to about 5 per cent. maturing the eleventh year and to about 6.8 per cent. in the twentieth year. Meanwhile, the interest requirements decrease from $70,000.00 the first year to about $4,750.00 during the last year, the average total requirement annually during the whole period being about $140,700.00.

It will be noted by comparing the totals of Figure I. with those of Figure II. that there is a difference, amounting to $79,440.00, in the grand total costs apparently in favor of the Figure I. method over Figure II. This advantage is, however, superficial only—it is not actual, for the reason that the taxpayers who furnish the money by the first method are obliged to furnish more money during the early years; therefore, their bank accounts, or investment capacities, are diminished, and they *lose* interest over the whole period exactly equal to the difference shown, provided the interest rate on these lost investments be figured at the same rate as the bonds bear, viz., 3½ per cent. If, on the contrary, such interest earnings—as they are likely to be in ordinarily good business—would be greater than 3½ per cent., then the apparent loss would be transferred from Figure II. method to Figure I. method.

This explanation leads me to an emphasis upon a fallacy frequently met with by accountants in eulogies of serial bonds by promoters and others wherein it is stated that by using the serial bond method immense savings of interest are obtained to the government, issuing the bonds over what would be required if a sinking fund method were used. This argument is entirely fallacious. If it were true, it would be equivalent to the bootstrap-pull theory of lifting oneself. That it is unsound is evident when one thinks out the matter to clear conclusions. Whatever *saving* of interest there may be to a government corporation as such, i.e., a municipal corporation, or a State government, or a National government, there will be at least the same shrinkage of interest in the shape of capital earnings lost to the individual citizens who pay the taxes to that government corporation or division. There will be no gain to the taxed body of citizens *as a whole* by savings of interest from the use of serial bonds instead of sinking fund bonds, but there are many other and extremely important gains which are sufficient to justify the use of serials in place of sinking funds wherever the law permits it. These gains are in the line of simplicity, of accuracy, of loss of all mystifying elements, of less danger—much less danger—of actual pecuniary loss through fraud or ignorance, and in various other ways. Therefore, other things being equal, it is well to urge serials over sinking funds at nearly all times and in nearly all conditions of governmental financing, provided that such bonds are issued by the method shown in Figure II. of Chart C and not by the method of Figure I.

The question will naturally arise in your minds, "Why is not Figure I. just as good as Figure II. if, as I say, the interest problem is exactly equivalent when we consider the taxpaying bodies as a whole and take into consideration the individual loss or gain of their capital earnings?" The answer to this question necessarily is, that the taxpayers at the beginning of a twenty, or thirty, or forty-year period will be different individuals from the taxpayers at the end of such a period, and that it would be unfair and unsound to load the first taxpayers heavily and correspondingly diminish the burdens of the last taxpayers by big interest payments in the early years and light interest payments in the later years, as is done at present in the majority of serial bond issues. It is evident, I think, that the procedure in

CHART A.

HARBOR IMPROVEMENT LOAN SINKING FUND

FIGURE I - THE OLD WAY

ANNUAL ADDITIONS TO FUND VARY FROM $1,932 IN '02 TO $38,859 IN 1897

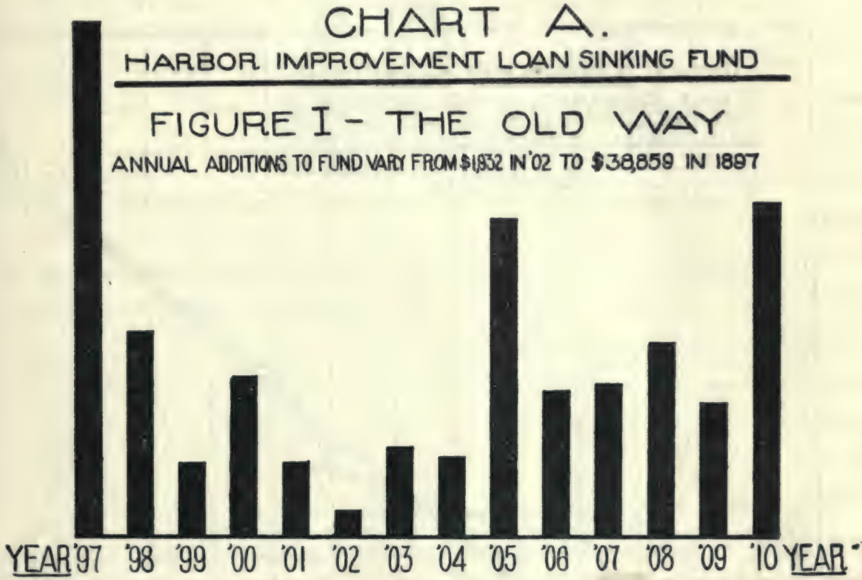
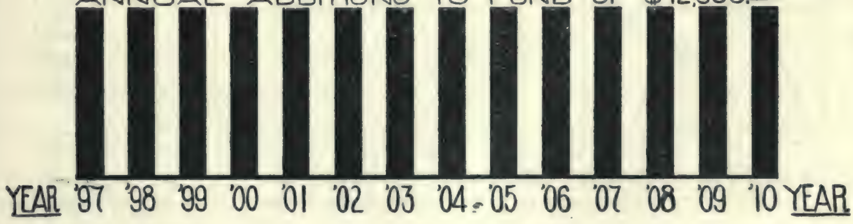


FIGURE II - THE NEW WAY

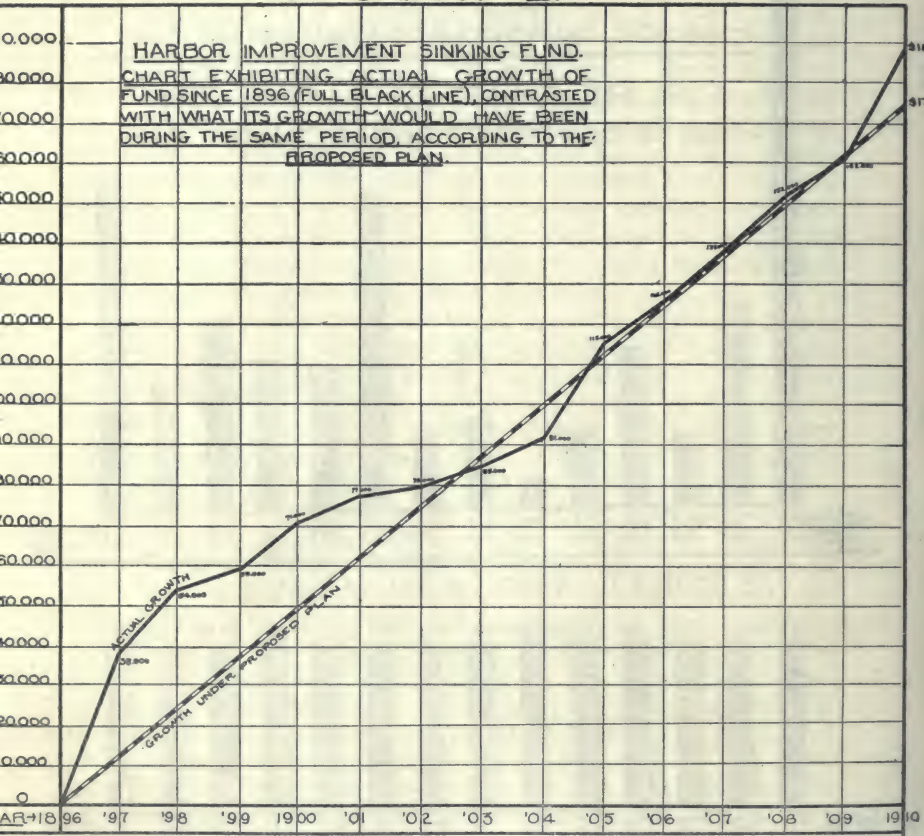
ANNUAL ADDITIONS TO FUND OF $12,500.00



the case of serial bonds should be materially modified, as illustrated in my Figure II., in order to become thoroughly sound and entirely fair to all taxpayers in the series of years for which the bonds will run.

As an illustration of the contrast between sinking funds which are handled by the old method and similar funds handled by the new method here described, I submit Chart A and Chart B,

CHART B.



which exhibit the actual increments of one of the Massachusetts sinking funds covering the period of fourteen years from 1897 to 1910, inclusive. The contrast between Figure I. of this chart and Figure II. is striking.

Chart B exhibits the same sinking fund, with its varying increments, during the same period by graphic lines. This chart makes it evident that the Sinking Fund Commissioners endeavored to keep the fund growing evenly by reducing or increasing the annual appropriations, which varied from $2,556.00 to $5,250.00; while earnings and miscellaneous receipts of the fund varied from $1,932.00 per year to $10,775.00.

The Massachusetts sinking funds have always been exceptionally well handled, and have been one of the points of honor of the Commonwealth's conscience; therefore, the variations exhibited should be laid to faults of the sinking fund system, as such, under the old methods and not to faults of supervision by the managers of these funds.

PART II.

Depreciation Reserves for Governmental Purposes.

The second feature of this address I wish also to make as brief as practicable, although the intricacies of my subject will necessitate only a partial exposition of it.

The relationships between "depreciation reserves" and sinking funds are often misunderstood by the layman and not infrequently by the public accountant. Strictly speaking, there are no real relationships. They are actually entirely separate and distinct subjects, and should not be related in accounting procedure except as described below.

Sinking funds have to do with the repayments of borrowed capital. Depreciation reserves have to do with the keeping of assets intact, irrespective of the method by which the capital was provided for purchasing or constructing those assets.

While both relate to *capital*, as we see, sinking funds are always asset-offsets to liabilities on the contra side of the balance sheet, while depreciation reserves are always liability-offsets to assets on the other side of the balance sheet. Both are offsets, and, therefore, similar as far as that goes, but each is for a diametrically opposite purpose.

It should be evident to all accountants that depreciation of capital assets goes on continually, in fact, whether or not such depreciation be recognized in the books of account. In every plant a day comes when depreciation must be provided for, either out of reserves, built up regularly from earnings, or by assessments upon stockholders, or by issuance of new capital stock or bonds, with the proceeds of which to make good the worn-out equipment and plant. Depreciation can never be escaped; it will take its toll in due time. The only question is, Shall it be provided for correctly by annual reservations of profits, separately set up aside from surplus, or shall it be permitted, as is so often the case, to run to seed without scientific provision at all and left for the subsequent unfortunate stockholders to provide for as best they may?

Depreciation reserves in governmental accounting are as necessary as in any other accounts, but owing to their intricacy and difficulty they are infrequently attempted, and when attempted are usually unsuccessful. Only when the governmental accountant is thoroughly trained in such accounts and is maintained in office for a long time—many years—can there be success in such classes of governmental accounts. Therefore, owing to these complications, depreciation reserves are seldom met with in such accounts.

After experimenting with all kinds of accounts and all kinds of accountants in governmental service, I have frequently taken refuge in elemental simplicity as the only hope for municipalities. The moment the average government accountant in the States takes a hand in making alleged scientific reserves for depreciation he gets in at once "over his head," and, as he hasn't learned to swim in that current, he promptly asphyxiates, and his "reserves" float down upon the stream, hodge-podge—"flotsam and jetsam"—nothing else!

I have been utterly discouraged, time and again, as many of you must have been, and have finally come to recommend *elemental simplicity* as the only safe and sound way of handling such accounts in the great majority of municipalities. I will content myself, therefore, for the purposes of this address, by setting forth as clearly as possible what I mean by "elemental simplicity" in such accounts.

In the first place, many, if not most, municipal accounts in the United States have no true balance sheets, no correct series of fixed asset accounts, and, of course, no corresponding depreciation accounts. In municipal industries—waterworks, electric works, street railways, etc.—such accounts are sometimes attempted, and it is only through these classes of undertakings that we may hope for success enough to lead to extension of such good methods to the ordinary classes of municipal fixed assets, such as buildings, equipments, sewers, parks, streets, etc. At present such applications are, as I say, hopeless. They are even dangerous to attempt, as they will surely lead to utterly mistaken statements of account when incorrectly applied.

My "elementary simple" method, then, is this: On the municipal balance sheet make an absolutely separate division of fixed assets values from current assets value. Have, in fact, always a "double-account balance sheet," with separate balancing surpluses. Have the upper part *current* assets and *current* liabilities with a *current* surplus—grand totals in balance. Have an under part *fixed* (or "capital") assets and *capital* liabilities with a balancing capital surplus (or "City of Blank account"), which is strictly a *balancing account* only, not an available surplus in any sense of the word. This is the first fundamental requirement. Next, see that the values of the *fixed assets* are set forth at *cost*, if cost be obtainable. All at cost, *not* depreciated. If cost is unobtainable, which is frequently the case, then start the new accounts at appraised values at the date in question, but eliminate depreciation accounts in connection therewith. That is to say, the left side of the capital balance sheet (in American fashion) will exhibit the cost values—or original appraised values if costs cannot be obtained—of the various classes of fixed assets. Now comes my suggestion, made in the interest of "ultimate simplicity," and at the same time of accuracy and intelligibility of the statement: On the right hand (liability) side set up contrasted figures of each of the classes of assets based upon annual estimates of the present values for municipal purposes of these various properties. These estimated valuations will then be contrasted with the *costs* of these properties continually, and the estimated appreciation or depreciation of the properties will be evident to the most mediocre intellect. Moreover, as the left side represents *costs* and the right side represents present estimated values, the latter may change with the changing opinions of succeeding administrations without danger to the fundamental accounts, as these changes in appraised values from year to year are reflected only in an "Appreciation and Depreciation Account," which acts as the balancing account at the bottom of the statement on the right hand side (liability side). This account is *plus* if the total estimated values above are less than costs, and *minus* if the estimated values above are greater than costs.

It may, of course, be frankly stated that this proposal smacks of despair rather than of hope for depreciation accounts in municipalities, and this may be well considered so for the moment. Criticism is also well taken that such a statement upsets the established relations and purposes of a capital "balance sheet," viz., the contrast of capital liabilities with capital assets. To answer this criticism I must point out, as shown in Chart D, that a distinction is made in the capital division of the total balance sheet between bonded, or mortgaged, or other relatively "fixed" liabilities and the fixed assets described above. The bond (and similar) liabilities occupy a separate division of the capital balance sheet, offset in this division by the values of sinking funds already raised to provide for them—if there are such—and with a balancing account of their own, "Net Bonded Debt" or similar title, to offset the difference between the two sides, the grand totals making a true balance in this subdivision.

CHART D.

PRO FORMA BALANCE SHEET OF A MUNICIPALITY,

CITY OF LYNN.

City Auditor's Balance Sheet, June 30, 1918.

CURRENT ACCOUNTS.

Asset and Deficiency Accounts.

Cash:—		
In Banks and Offices		$ 59,188.19
Accounts Receivable:—		
Taxes, 1917		211,032.38
Street Sprinkling, 1917		2,784.60
Moth Extermination, 1917		124.66
Sewers, 1917		1,710.89
Sidewalks, 1917		2,859.66
Sewer Assessments, Unapportioned		....
Sidewalk Assessments, Unapportioned		....
Tax Titles		13,481.66
Tax Possessions		1,950.88
Apportioned Sewer Assessments		11,426.28
Apportioned Sidewalk Assessments		15,349.76
Departmental Bills Receivable:—		
General Departments		17,865.20
Commonwealth of Massachusetts—		
State Aid	$42,210.72	
Military Aid	1,952.00	
Soldiers' Burials	1,950.00	
		46,112.72
Water Accounts		2,487.55
Total Available Assets		$ 386,374.43
Estimated Collections, 1918:—		
Taxes, 1918		$ 1,740,508.12
Taxes, 1918 (outlay)		23,010.00
Miscellaneous Revenue, 1918 (Estimated Collectible)		316,419.46
		$ 2,466,312.01
Current Deficiency (if Appropriations are Fully Expended)		18,002.36
Totals (Current)		**$ 2,484,314.37**

CHART D.

PRO FORMA BALANCE SHEET OF A MUNICIPALITY,

CITY OF LYNN.

City Auditor's Balance Sheet, June 30, 1918.

CURRENT ACCOUNTS.

Liability and Reserve Accounts.

Current Debts:—		
Temporary Revenue Loans		$ 1,345,000.00
Appropriation Balances		1,094,649.55
Overlays:—		
Reserved for Abatements, 1917		6,702.38
Premiums:—		
Serial Bonds (Inside)	$........	
Serial Bonds (Water)	....	
		....
Reserves:—		
Real Estate Sales		380.61
Excess Receipts from Sale of Tax Possessions		279.24
Sewers Apportionments (Revenue, 1918 to 1926)		11,426.28
Sidewalk Apportionments (Revenue, 1918 to 1927)		15,349.76
Water Revenue		2,487.55
State Income Tax, 1917		7,764.00
Fire Losses, etc.		275.00
Totals (Current)		$ 2,484,314.37

(Continued on next page)

CHART D.—(*Continued*)

CAPITAL ACCOUNTS.

Indebtedness.

Sinking Funds: (Cash and Securities)—	
For Bonds within Debt Limit	$ 307,052.89
For Bonds outside Debt Limit	295,800.11
For Water Bonds	863,399.15
	$ 1,466,252.15
Net Bonded Debt (Balancing Account)	4,064,247.85
	$ 5,530,500.00

FIXED ASSETS.

Values at Costs.

(Pro Forma Figures Only).

Municipal Lands (1)	$ 2,757,623.00
Municipal Buildings	8,626,700.00
Municipal Equipments	3,184,525.00
Sewers	4,213,900.00
Parks	2,192,300.00
Streets	6,727,100.00
Etc., etc.	....
Totals	$27,702,148.00

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(1) Lands occupied by buildings, etc., not parks or streets.

CHART D.—(*Continued*)

CAPITAL ACCOUNTS.

Indebtedness.

Bonded Debt:—	
Bonds within the Statutory Debt Limit—	
With Sinking Funds	$ 592,800.00
Serial Bonds	1,696,900.00
Bonds outside the Statutory Debt Limit—	
With Sinking Funds	473,500.00
Serial Bonds	606,300.00
Water Bonds—	
With Sinking Funds	1,420,000.00
Serial Bonds	741,000.00
	$ 5,530,500.00

FIXED ASSETS.

Values at Present Estimates.

(Pro Forma Figures Only).

Municipal Lands (1)	$ 4,237,840.00
Municipal Buildings	6,272,700.00
Municipal Equipments	2,732,390.00
Sewers	5,400,000.00
Parks	4,600,000.00
Streets	10,800,000.00
Etc., etc.	....
	$34,042,930.00
"Appreciation and Depreciation Account" (Surplus, Subtract)	6,340,782.00
Net Totals	$27,702,148.00

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(1) Lands occupied by buildings, etc., not parks or streets.

Down below comes the contrast between the *cost values* and the *estimated present values* of the fixed assets as a separate division of the balance sheet by *itself*, as described above.

Subsequent divisions of the balance sheet cover trust funds and trust accounts, etc., also municipal industries' assets and liabilities, if handled as separate businesses.

In the balance sheet exhibited—Chart D—the current figures are *actual*, being taken from the monthly statement of the City Auditor of Lynn, Mass. The capital figures for indebtedness are also actual, but the fixed assets' figures are *pro forma*, having been written in by the author merely as illustrations.

It should be explained that the figures for "lands," "buildings," etc., are supposed to be consolidated, and to be supported by innumerable aggregates and balances in subsidiary real estate and fixed assets' ledgers, wherein all details, both of *costs* and of present estimates are kept. It is further explained that municipal industries—separate businesses—should be separately stated on the gross balance sheet with actual fixed assets and liabilities and actual *depreciation reserve* accounts wherever such accounts are regularly and correctly kept.

As a final record for this regrettably incomplete paper I quote the definition of "depreciation" given by the United States Census, Division of Municipal Statistics, etc., as follows:—

"**Depreciation.**—Depreciation is a general designation of the gradual diminution in value which is caused by wear, decay, displacement or obsolescence in the value of buildings and equipment, and of the sudden diminution which results from fire or other destructive forces. It is never actually or relatively the same for any two establishments, even of the same industry. For this reason it is impossible to frame concise, general rules for making allowances for depreciation which will not in their application be attended with a large margn of possible error. To use such rules without causing errors, those employing them must have for each individual establishment exact data, based upon inspection, showing how far and in what respects its actual depreciation differs from that of the average establishment of its class."

I also quote from a previously published pamphlet my own remarks relating to depreciation reserves in public service companies, etc.:—

"Much experience under the conditions in which public service corporations are acting in most muncipalities convinces the writer that it is fundamentally necessary that questions of depreciation should be carefully considered, accurately worked out, and regularly entered upon the books of all such corporations.

This being the case in private works, it is also necessary that municipally-managed public services should have similar accounts. The reason in both cases is the same, viz., in order that *fair* rates may be established, that is, rates which will be just to the consumers and also fair to the plant. Such rates cannot be just unless full allowances shall have been made for deterioration of the plant, or, in other words, for the capital losses which arise from depreciation. Such losses must be provided from income, or otherwise they will require new capital. Therefore, they should be handled in the accounts as regular charges against income. This is most forcibly true in all plants which have to do with electricity, for in such plants depreciation during past years has been rapid, and changes in the art have frequently demanded that machinery should be scrapped, even though the machines themselves might be in excellent physical condition. Electric street railway companies, electric lighting companies and telephone companies are fast coming to see the necessity for proper and complete provisions for depreciation. Gas companies are next in importance in this particular, while waterworks may be considered last. It must be noted that it is frequently the fact that 'appreciation' in the general value of any waterworks, due to increase of population in its territory, may offset in great part, and sometimes may even exceed, the losses by depreciation which occur during a given period. Therefore, while the emphasis which is here laid on depreciation accounting is accepted in full by electrical concerns to-day, and accepted in part by gas companies, it is nevertheless true that waterworks have not, as a rule, acknowledged the necessity for such accounting, or, at least, have not adopted such accounts in their bookkeeping systems. The same arguments which have compelled the use of depreciation accounts in electrical concerns will, in my opinion, compel their use ultimately in waterworks. This will come about mainly through the instrumentality of state supervising boards, which will require uniform reports from all municipalities and from their departments, in which a water department is frequently included.

"Just as the Gas Commissioners of Massachusetts have required definite allowances for depreciation in the accounting of municipally-operated plants, so, in due time, similar requirements will be promulgater for municipal waterworks.

"If the writer has stated the facts correctly, and if his deductions in regard to the future are true, it is evident that proper accounting for depreciation should be undertaken promptly in all such plants. The best way to handle these matters, in the writer's opinion, is by a series of *depreciation reserve* accounts, that is, by reserve accounts which correspond to the different classes of assets, and which appear in the balance sheet as liabilities (credit balances). Every monthly closing should provide for items to be charged to *expense* and at the same time credited to these various reserve accounts. Each of these charges should be based upon a carefully calculated percentage, which will vary according to the estimated life of the particular class of asset. Whenever depreciation is made good by actual expenditure for renewals or reconstruction, such amounts should be charged against the corresponding depreciation reserves, and thereby the balances remaining in these reserve accounts will show whether or not sufficient monthly allowances are being made year by year to provide for depreciation losses, shown by the actual expenditure for renewals and reconstructions. The necessity for depreciation reserve accounts being evident, the writer urges that particular attention be given to them in all public service accounting, and trusts that, in future editions of the Census classifications, statements of liability accounts will be included, in which will be set forth in detail a depreciation reserve for each of the various classes of deteriorating assets."

DISCUSSION.

In this paper you will find three charts; they are taken from a report I made three years ago to the Governor of Massachusetts, with special reference to sinking funds and serial bonds. Many of these points in favor of serial bonds as against sinking fund bonds have become generally popular of late years; in Massachusetts the municipalities are required to issue serial bonds, and the State itself also issues them. The great trouble with the sinking fund bonds that we have found, has been due to the element of mystery in it; if it could be said to the average Councilman, "That is going to be taken care of by the sinking fund," that seemed to be a sufficient answer, the details of how were not made clear. None of the sinking funds that I or my staff have investigated in the last 20 years have been found to be exactly in accord with what the theory called for; either the fund had too much in it, or more often too little. And, of course, there is always the temptation in connection with sinking funds, to those who hold them or can get at them, or who can restrict the amount which should go into them, to take some action in that way, either bringing pecuniary loss on the Government or bringing about a condition where later taxpayers must be heavily assessed to make up the deficiency. So that in the United States the question of sinking fund bonds v. serial bonds has been pretty well settled in favor of the latter.

In that connection, however, there have been arguments advanced which were unsound, so that is one of the points it seemed to me advisable to bring out in this paper. It has been said that there is a great saving of interest by the serial bond plan. At first glance that appears to be true; but it is only true in relation to the authority that issues the bonds looked upon as an entity in itself; if you include the taxpayers to that authority, it is clear that whatever the authority saves, the taxpayers lose; therefore as a whole there is no saving of interest. (See Fig. 1 and Fig. 2, Chart C.) If the taxpayers throughout the whole period of the currency of the bonds were the same persons, it might be considered immaterial whether the plan shown in Fig. 1 or Fig. 2 were followed, but the fact being that a great many taxpayers change during the period, it is desirable that the payments from year to year should be equalized and made substantially the same.

Question.—We have here bonds issued under Plan 2, which I think are usually termed instalment bonds. Where this form is adopted and the money actually repaid to the bond-holder as equal instalments of principal and interest, I presume you would not take exception to that form of redemption? Your view is more against the municipality holding the money?

Answer.—If the bonds are issued in a series so that an equal proportion is paid each year, that complies with the requirements.

Q.—If the municipality issues a bond with coupons, including both principal and interest, so that the money is being paid back to the lender regularly, then if the issue were large enough it would fit in with this plan; that is, instead of the municipality starting a sinking fund, it is paid to the bond-holder and he carries his own.

A.—I think perhaps that is one point where your municipalities are a step in advance of ours.

Q.—I think in Ontario perhaps one-third of the municipal bonds are issued on the instalment plan.

A.—What as to the other two-thirds in the future, do you think the proportion will increase?

Q.—Not so much the serial as the annuity plan, that is becoming more general. I think the line may be fairly drawn between suburban and city corporations.

Q.—As to the saving of interest on the serial plan; the City of Toronto, since Mr. Bradshaw became Treasurer, by issuing its bonds entirely on the serial plan, has made a large saving of interest in this way, that with the wide range of maturities the bonds have been more easily sold and the result has been a lower effective rate; the last issue was sold at 6%, not free from taxation, while the Dominion Government pays somewhere about 5½%, tax free; so the city is getting a lower effective rate owing to the extra attractiveness of the bonds.

Q.—Because the bond houses have a clientele who want different ranges of maturity; but where the issue is smaller they adopt the instalment coupon plan.

Q.—One trouble in Ontario is that a large proportion of our bonds are issued for local improvements, where the work is charged to the specific properties. Now serial bonds are not applicable to that condition, because they are generally payable so much per front foot per annum, therefore the municipality must levy an equal amount each and every year, so the instalment plan is the most suitable, because the exact amount is raised and paid to the lender.

Q.—Isn't there this to be said in favor of the Fig. 1 method; bonds are issued in many cases for wasting assets. Under Fig. 1 the ratepayer has an interest charge diminishing from year to year, and this is offset by the fact that the upkeep charge in the earlier years is small and becomes increasingly heavy in later years?

A.—That is the condition which led me to deal with depreciation in this address in close connection with the question of serial as compared with sinking fund methods. You cannot get away from that question of repairs and upkeep, and yet in my opinion that should be kept entirely distinct in the accounts, if it is practicable to do so. Of course, in small governments where the accounting is poor you have to do the best you can and depreciation can only be provided for in such a way as you mention. But it should be recognized clearly that it is not only a question of the financing, but also of taking care of the upkeep proposition, and that the early interest payments are heavier for that reason. The question of depreciation comes up in the second part of my paper.

Q.—In connection with Fig. 1 there is another point; by having a reducing interest charge from year to year it makes the later financing of the corporation easier; other loans have been taken care of and therefore the bonds are made more attractive to purchasers.

A.—That is true; if you are issuing two million of bonds each year it would be immaterial by which plan you paid the interest, what is taken off one issue will go on another, so it will average up, but as a theoretical proposition, and also from the practical selling point of view, each bond issue ought to stand on its own feet.

Massachusetts has always taken particular care of her sinking funds, and taken pride in the way they were handled. As a fiduciary matter they have been handled extremely well; there have been no scandals that I have ever heard of, but it has been a haphazard proposition, re-figured from year to year, and the necessary amount put in; this is illustrated by Charts A and B.

Q.—Was that due to inaccuracy in the amounts invested, or due entirely to fluctuation in the interest earnings?

A.—In part to fluctuation in interest, but largely to inaccuracies in the original basis. In 1911 we were making a report on the general financial condition of the State, and some members of my staff were set to re-figuring some of the sinking fund calculations, and we found the amount that should be paid in each year was not correct, investigation proved that owing to the misplacing of a decimal point in the original basis of calculation the whole scheme was wrong and had been wrong for ten or twelve years.

Q.—In Ontario we often find the sinking fund in excess, owing to the fact that a 4% basis of earnings is the maximum allowed by the Act, whereas by the system of purchasing their own subsequent issues for sinking funds, carrying 5%, the accretion exceeds that maximum.

A.—Yes, we have found that condition; sinking funds so much in excess that it was absurd to continue the charge against the taxpayers.

Q.—In Ontario the Act makes special provision for the adjustment of the tax levy for the final payment under the by-law.

A.—In the cases I speak of you would have had to diminish the payment for several years to make it come out right. And in the City of Lynn we found the sinking funds nearly all much below the requirements, because the different administrations had given too much consideration to the tax rate and in order to hold to the same tax rate had diminished the amount paid into the sinking fund.

Q.—In Saskatchewan our sinking funds are computed on a 4% basis, while at present they are earning about 7%. The local government board has power to allow the surplus earnings to be used to reduce the taxation of the current year.

A.—So probably your payments would be something like this (Chart A).

Q.—Well, the payments to the sinking fund trustees are equal each year, and the trustees turn back the surplus into the general funds.

A.—Unless it is done proportionately, it is not sound.

Q.—That question of the disposal of sinking fund surplus is a very live one. In our municipality the excess earnings are turned back into the general funds, in reduction of general taxation. The trouble with that is that a large proportion of our debt is for local improvements, so we are evidently using for general purposes money collected from special properties, and some day some of those people may demand an adjustment.

Q.—In Quebec we are not so fortunate. Until recently we had under the Cities and Towns Act the provision that every municipality had to set aside a sinking fund of 1% per annum of the amount of the bond issue, it did not matter whether it was a twenty-year or a sixty-year bond. However, that was more or less a dead letter. That is changed now, but I do not know how they are going to make up the deficiencies. I know of one or two corporations where the sinking fund is operated by a commission, that works very well; if it is short or over, it just gets an amount from the City Treasurer that is sufficient to meet the requirements.

A.—I will give you an illustration from a very high quarter of how sinking funds work. I was called in on President Taft's Commission on Economy and Efficiency, and one feature I examined was the method of preparing the statement of the Treasury, which is published every day. We found some curious things; one of the most extraordinary was that under the law as to provision for sinking funds 1% of the amount of outstanding bonds should be appropriated by the United States Government every year, and sure enough it was appropriated for, and that is all there was to it. It was set up in an account, but there was no balancing account, and no fund, nothing but the building up of an amount of many million dollars which appeared on the books of the United States Government as a sinking fund, but had no existence at all.

Q.—I would like to call attention to the English manner of dealing with surplus and deficits, provided for in 1891; if it appears to the Local Government Board at any time that contributions to the Redemption Fund will not be sufficient, the amount of such contribution shall be increased to such extent as the Board may direct, and the Board has power at any time to permit a reduction, either temporarily or permanently, wherever it appears that the contributions would be more than sufficient.

A.—Yes, that brings it under the control of a central body which has power over all local bodies, that is an admirable solution. We are coming to a somewhat similar condition in many of the States now; in Massachusetts we have what is practically a uniform accounting board which controls the financing and accounting of all municipalities in the State. In that connection I may say that in 1902 when Ohio was introducing its Uniform Accounting Board, I was called in consultation. It was a question of laying out a classification of accounts which would be suitable to all the municipalities of the State, some 70 to 80, ranging in size from Cleveland to small villages, so a classification had to be laid out that would apply in its primary distinctions to these small places, and yet be capable of expansion into divisions and sub-divisions adapted to the affairs of the large cities; and that was worked out along the lines that the National Municipal League had been developing, and came into operation in Ohio in the first instance. When I returned from Ohio I took the matter up in Massachusetts, and through various influential bodies a bill was introduced in the Legislature looking to a similar system. At the first hearing on that bill there was not a room in the State-House big enough to hold the people who came down to oppose it, as an interference with Home Rule, etc. But a campaign of education was carried on, and in four years it was passed, and now those people say it is the best law they ever had, because it provides accounts in a form that makes them capable of comparison; the same words mean the same thing in all the municipalities now; and it brought in its train a whole series of improvements in regard to the issue of bonds; for instance, they are now approved by the central body before issue, and even town notes must be O.K'd. by the central body before they can be issued, and we have records at the State-House of all those notes, whereas before there had been many cases of defalcations; in one case the Town Treasurer for years had been forging the names of the select-men to notes, and it was only discovered because he got into a state of mind that made his hand tremble so that he could not do it so well.

Now dealing with Depreciation (Part 2 of paper).

Q.—What do you consider the advantage of setting up a market value of municipal assets, seeing they cannot be disposed of at any time?

A.—It gives information as to whether those lands or assets have appreciated or depreciated in the estimation of those charged with the duty of appraising them. But it would be exceedingly dangerous to let those appraisals go into the main accounts; therefore I hold the main accounts at cost. On the right hand side are appraised values from year to year; on the left hand side the cost. There is a chance to compare—yet they do not mislead.

The important feature of the form of balance sheet here presented is that the current story is entirely separate and distinct from the capital. "Overlay" is an amount, limited to a maximum of 5%, which is provided for loss of taxes—that is, for personal taxes, of course. Each year's "overlay" is kept up until such time as the uncollected taxes are written off.

Q.—Is the 5% on the special taxes only?

A.—No, on the whole taxation. The origin of the overlay was for the purpose of permitting the tax to be in equal cents. We availed ourselves of it for the purpose of providing a reserve, and this later was sanctioned by ruling of the Department. 5% is the limit, but usually only about 1% is used.

Q.—It often is the case that assets of permanent value are bought out of the revenue; how do you propose dealing with that?

A.—We handle them as elements of appropriation from the revenue, they must be provided for from the revenue, but at the end of the year they are taken out and set up in the capital assets, and also in this corresponding capital surplus therefore.

Q.—You speak of premiums on serial bonds, the third item on the liability side.

A.—That is well shown on Chart A. Under Massachusetts law premiums actually collected on bonds sold must be paid into the sinking fund, and that is what accounts for that big payment the first year. Now this matter of setting up these fixed assets as shown on pp. 14, 15, is what you might call a counsel of despair; you do, however, get at some idea as to whether there has been appreciation or depreciation of the city's fixed assets during the years that have passed since they were set up at cost. And there is no danger.

Q.—Do you advocate setting up these values in the books, or only as statistics?

A.—Not in the general books; they would be covered by a control account and subsidiary records.

Q.—What is the justification for putting in the streets at any valuation? You cannot have a city without streets.

A.—Your point is good from the point of view of a commercial balance sheet, but the municipal point of view is different. It is not a case of establishing values; it is a case of showing what you did with the bonds issued years ago; what you have got for them.

Q.—Take the case of water works, where you levy each and every year for the sinking fund, are you in favor of constituting a reserve to that extent and making it a liability?

A.—If it is done as an accounting proposition in such a way that the sinking fund does make up for the depreciation. The emphasis must be laid on depreciation; it is immaterial how it is done perhaps, so long as it is charged to the current revenue.

Q.—Take the case of streets and sidewalks; you put them in at cost. Now the average debentures for concrete sidewalks run for ten years, but the sidewalks last more than ten years. Do you suggest the abolition of the item from the balance sheet when the liability is wiped out? Because concrete sidewalks are an important asset to a city.

A.—In that case it would be difficult to so handle your sinking fund as to take care of the depreciation feature, therefore I would advise keeping it separate.

Q.—But I do not quite follow; in this pro forma balance sheet you say "Values at Cost," "Values at present estimates." What is the point in valuing your streets? It is difficult to get a value of a street other than its cost.

A.—Perhaps I can bring it out by an experience we had; take the Consolidated Gas case in Boston; the cost of laying the mains under the streets was developed by engineers and records; but that was not what the public service company wanted for those mains, they wanted the additional sum it would cost to lay them now under the conditions of paved streets; there was a big increase in the value of those streets and the cost to the public service company of laying mains, which they wishes to consider as the value of their mains under the streets; there was an unearned increment, so to speak, which they were claiming. That matter was threshed out in the Courts and that claim was not allowed in the majority of instances. That is merely an illustration.

Q.—You refer in your paper to the importance of retaining official services for long periods, provided, of course, they are efficient. Wouldn't it seem desirable that besides having centralization of control of sinking funds and uniformity of accounting there should be a centralization of control of official appointments; that is, the doing away with political appointments and removals. And on the question of trained officials, isn't it desirable that our colleges and schools of higher education should bear in mind the qualification of men for these positions?

A.—I am glad to say that in the United States that movement has already begun, and some of our business colleges are providing instruction in municipal administration and finance. I have no doubt that will go on developing.

SAVED THE TWO.

"I'm feeling verra queer!" said Sandy McVea. "Do you drink whiskey," asked the doctor, "or smoke?" "Oh," said Sandy, "maybe a glass a day and smoke a couple of pipes." "Well, cut out the whiskey and tobacco, and come back next week." Sandy was at the door by this time. "Heh!" called the doctor. "My advice will cost you two dollars." "Never fear!" Sandy paused to reply. "I'm no' takin' it!"

THE
CANADIAN CHARTERED ACCOUNTANT
PUBLISHED QUARTERLY UNDER THE AUSPICES OF THE
DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

"Of the Profession; by the Profession; for the Profession."

The Publication Committee will be pleased to receive contributions on subjects of interest. Papers which may not be deemed suitable will be returned, if desired.

All communications to be addressed to "The Canadian Chartered Accountant," 518 Continental Life Building, Toronto, Ont.

TAXATION RETURNS.

As the Commissioner of Taxation requires one copy of a business concern's financial statement to accompany the Business Profits War Tax Return, and two more with the Income Tax Return, there will usually be an economy in the preparation of these extra copies at the time when the statements are being typewritten for the concern's own use.

The Department requires copies in detail of the Balance Sheet of Assets and Liabilities, the Manufacturing, Trading and Profit and Loss Account, and also accounts in detail showing the continuity of the Capital, Surplus, and the Profit and Loss Account balances carried over, with dates of payment of Capital, Dividends, etc., so as to enable the Inspectors to average the Capital Investment.

SAVE FOR VICTORY.

"Save, even if to do so may mean self-denial," urges a bulletin issued by the National Thrift Campaign Committee. "Is it a hardship to forego a luxury when so many are giving up their lives for the preservation of our Dominion and the cause of civilization? Compared with such a sacrifice, the self-denial of the average person in Canada is a small thing.

"In times like these the true patriot pulls tighter the purse-strings, not so much for his personal gain, as for the good of the country.

"We who cannot go to the front may at least help provide the indispensable sinews of war. What is more—the war cannot be won without them. The boys at the front must lack nothing. Save for Victory!"

CANADA'S FUTURE.

It is generally conceded that Canada's development and increased productivity will be largely dependent upon her future immigration. That methods and machinery of the past decade will not successfully carry on this work in the future is another fact. Nor is it possible to await peace and then inaugurate a successful system that will give to Canada 1,000,000 new settlers a year, and settlers who are fitted in intelligence and financial resources to be a great factor in the development of our several industries. British settlers will be the object of every part of the Empire and if we are to secure our just proportion, then we must take early and energetic action.

In our after-war efforts to secure the British settler for Canada we will for the first year not only be confronted with serious transportation difficulties, but for a much longer period have to meet the keen competition of Australia, New Zealand, South Africa and British East Africa and also the opposition of the British authorities to the depletion of the British population at home, even if it is not leaving the Empire.

WARNING.

The members of the profession are warned against a swindler operating under the name of "Hamilton Christy." This person's modus operandi is to communicate, usually by long distance telephone, with the Canadian representatives of Old Country firms of Chartered Accountants, and obtain money ($35 appears to be the favorite amount) under the following pretences, viz.:

That he has a letter of introduction from someone in the Old Country (generally one of the partners in the firm) to the person called up, that he has been robbed on the train of nearly all his money, that he has to meet his father, who is passing through a certain place on a certain date, and will the person to whom the letter of introduction is addressed please telegraph him the train fare in order that he may keep the appointment with his father.

"Hamilton Christy" has told the above tale or a variation of it, to such good purpose that he has already, to our knowledge, victimized a number of Chartered Accountants in different parts of Canada. He appears to be furnished with full details of the prominent Chartered Accountants in England and Scotland, including details of their domestic affairs, etc., which makes it extremely difficult to doubt his story.

BUSINESS PROFITS AND INCOME PAMPHLET.

The address and discussion of the Business Profits and Income War Tax Acts by Mr. R. W. Breadner, Commissioner of Taxation, published in this issue, can be had in pamphlet form, for distribution purposes, at following prices: Less than 25 copies, 15c each; 25 copies, $3.00; 50 copies, $5.00; 100 copies, $8.00. Orders accompanied by remittance should be sent to "The Canadian Chartered Accountant," 518-19 Continental Life Building, Toronto.

INCOME TAXES COMPARED.

Canadians do not realize the severity of the new United States income tax which is embodied in the war finance measure which has just been passed. While Canada takes over one-tenth of the income of a man who makes $50,000 per year, the United States will now take one-quarter. Even this is low when compared with Britain's $20,937. On an income of $100,000 the United States levies a tax of over a third of the whole amount, while Britain takes nearly a half.

On incomes of $2,500 and $3,000 the new American tax is three times the Canadian, but does not begin to compare with the British. On incomes over $200,000, however, the British tax is lower than the American. The following is a comparison:—

	Canadian Tax.	American Tax.	British Tax.
$ 2,500	$ 10	$ 30	$ 210
3,000	20	60	356
6,000	140	360	1,125
10,000	392	845	2,250
20,000	1,382	2,895	6,812
30,000	2,702	5,595	11,187
50,000	5,782	12,495	20,937
70,000	9,962	21,895	31,437
100,000	17,607	39,095	47,187
200,000	50,957	101,095	99,687
500,000	195,407	297,095	257,187
1,000,000	499,157	647,095	519,687

The Canadian tax given above is that which will be levied in 1919 on 1918 incomes. The tax levied this year on 1917 incomes was on a lower scale.

NEW BANKRUPTCY ACT.

Accountants will be interested in the revival, at the late meeting of the Canadian Bar Association in Montreal, of the discussion regarding bankruptcy legislation. S. W. Jacobs, K.C., M.P., reviewed the measure which has been introduced into Parliament, and which has been delayed in order to enable conferences to be held regarding it. He argued in favor of assistance being given honest debtors to rehabilitate themselves, after they had given up everything to their creditors.

BELIEVE IN YOURSELF.

Believe that you are alive. Believe in work and the accomplishment of something worth while. Believe that a man gets what's coming to him; that one good deed to-day is worth two to-morrow, and that no man is down and out until he has lost all faith in himself. Believe that to-day's worry is mostly the result of yesterday's neglect. Opportunities come and go. Your opportunities come from your successes. Your successes from yourself. Believe in yourself.

NEW BRUNSWICK.

The Institute of Chartered Accountants of New Brunswick, recently incorporated, was duly admitted to membership in the Dominion Association of Chartered Accountants, at the Annual Meeting in Montreal. New Brunswick completes the federation, all Provinces of the Dominion now being represented in the Dominion Association.

ENLISTMENTS.

Owing to the demands on the space of the magazine by the Dominion Association Convention proceedings, it has been deemed advisable to discontinue the publishing of the list of enlistments for the present.

PERSONAL.

Lieut.-Col. H. D. Lockhart Gordon, F.C.A. (Toronto), has been awarded the Distinguished Service Order. Col. Gordon went overseas in July, 1915, with the 4th Canadian Mounted Rifles, with the rank of Major. He was promoted second in command in October, 1915, and became Lieut.-Col. with command of the battalion in June, 1916. During the time he was in command he took part in two actions on the Somme and one at Vimy. Col. Gordon is now home on furlough.

Messrs. Lawson, Welch & Co. and Gordon D. Campbell & Co., Chartered Accountants, of Toronto, announce that they have formed a partnership under the firm name of Lawson, Welch & Campbell, and will continue the practise of their profession with offices in the Crown Life Building, 59 Yonge St.

The firm of Henderson, Reid & Paterson, Chartered Accountants, Lethbridge and Medicine Hat, Alberta, has, by mutual consent of the partners thereof, been dissolved as at 30th April, 1918. The business of the firm will, however, be continued by Mr. Robert J. Ritchie Paterson, Chartered Accountant (Scotland and Alberta), practising under the firm name of Ritchie Paterson & Company, Chartered Accountants, Lethbridge and Medicine Hat, Alberta.

Mr. John W. Woodthorpe, F.C.A., senior partner in the firm of Woodthorpe, Bevan & Co., of Vancouver, B.C., and London, has been elected Vice-President of the Institute of Chartered Accountants in England and Wales for the ensuing year.

Messrs. Geo. A. Savage & Co. and Baker, Birnie & Co., Chartered Accountants, Montreal, announce that they have formed a partnership under the name of Savage, Baker, Birnie & Co., and will continue the practice of their profession as Consulting and Chartered Accountants at Suite 90, 91, 92 Commercial Union Building, Montreal.

J. P. Langley, F.C.A., announces that he has admitted to partnership Mr. Frank G. Short, C.A. The firm will continue to practise under the present style of J. P. Langley & Co. at the same offices, McKinnon Building, Toronto.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO.

(Incorporated 1883.)

W. R. Morris, President. Arnold Morphy, Secretary.
W. J. Valleau, Registrar.

The 35th annual general meeting of the Institute of Chartered Accountants of Ontario was held in the Temple Building, Toronto, on Saturday, July 20th, and was largely attended.

The work of the past year was fully reviewed by the President, T. Watson Sime, whose address was full of interest and showed continued progress.

Lieut.-Col. H. D. Lockhart Gordon, D.S.O., who is home on leave from France, gave an address on war organization and the part played by the Canadian forces, including many individual feats of bravery. The address was very much appreciated.

The election of officers for the ensuing year resulted as follows: President, W. R. Morris, Peterboro; Vice-Presidents, R. J. Dilworth, Toronto; M. H. Robinson, Toronto; Secretary-Treasurer, Arnold Morphy, Toronto. Council: Arthur K. Bunnell, Brantford; R. Easton Burns, Kingston; R. J. Dilworth, Toronto; J. Wyndham Eddis, Toronto; George Edwards, Toronto; Edmond Gunn, Toronto; Fred Page Higgins, Toronto; F. G. Jewell, London; Arnold Morphy, Toronto; Wilfred R. Morris, Peterboro; Arthur C. Neff, Toronto; Bryan Pontifex, Toronto; Malcolm H. Robinson, Toronto; T. Watson Sime, Toronto; Rutherford Williamson, Toronto.

Representatives on Council of the Dominion Association of Chartered Accountants: R. J. Dilworth, A. C. Neff, Bryan Pontifex.

Auditors: Nelson B. Gerry and Frank P. Gibbs.

Registrar: William J. Valleau.

It is with regret we learned of the death in battle of Capt. W. K. Commins, D.S.O., M.C., a late student of the Institute. As a tribute to his memory high mass was celebrated at St. Michael's Cathedral, Toronto. Besides the members of his immediate family, a large number of his friends were present, many in uniform, and the Rev. Father McLaughlan spoke of the deceased's many brave deeds and unfailing courage on the battle-field, telling how Capt. Commins, after leading an advance and gaining his objective, had started to report to his headquarters and was struck by a shell just before he reached his superior officers.

We have also to chronicle the death at his home in Hamilton of Ralph Leeming Gunn, a member of the Institute since the year of incorporation, 1883. At the time of his death Mr. Gunn was Grand Secretary of the Masonic Grand Lodge of Canada.

INSTITUTE OF CHARTERED ACCOUNTANTS OF MANITOBA.

(Incorporated 1886.)

John Parton, President. W. J. Spence, Secretary.

Recent enlistments from among the membership of the Manitoba Institute have been: Mr. James Grant, of the firm of F. C. S. Turner & Co., in a British battalion; Mr. J. Gilmour Wylie, Resident Manager of George A. Touche & Co., as a Lieutenant in the C.A.S.C.; A. R. M. Boyle, of the staff of Webb, Read, Hegan & Co., as a sapper in the Canadian Engineers; Mr. J. Culross Millar, as a private in the Paymaster's Office of the Manitoba Draft Battalion; Mr. J. C. M. Ligertwood, as a gunner in the 76th Battery, C.F.A. Mr. C. P. McIntosh, of the staff of Webb, Read, Hegan & Co., has also recently accepted a position on the staff of the Ministry of Munitions in London.

W. A. Lake, formerly of the staff of John Scott & Co., was reported missing on April 28th, 1917, while a member of the Royal Naval Air Service, and has been given up as lost.

In all, 26 members of the Manitoba Institute have enlisted since the war began and three have made the supreme sacrifice. 28 students of the Institute have enlisted, four of whom have been killed in action and one has died while on military service. 15 members of staffs of members of the Institute (not students) have been reported as enlisted, of whom one has been killed and five wounded.

Military honors awarded during the year have been the D.S.O. (Distinguished Service Order) to Lieut. W. H. King, of the 144th Battalion, C.E.F., who was a student of the Institute, and the Military Medal to Lieut. W. Armour Miller, a member of the staff of Ronald, Griggs & Co.

Two examinations have been held for the Institute by the University of Manitoba in the course of the year just closed, and although the number of candidates has, as might have been expected in war time, been small, the new arrangement has been given a fairly adequate test and has been found satisfactory.

With the support and co-operation of the Council of the Institute, evening classes in Accounting, Auditing and Commercial Law, designed especially with the needs of intermediate students in mind, have been provided by the University of Manitoba during the past winter in connection with the general programme of business courses that has been launched with the expectation of developing, in the near future, a degree course in Commerce.

The annual meeting of the Institute was held on June 24th, taking the form merely of a business meeting held in the evening, at which routine business was transacted. The elections for the Council of the Institute for 1918-1919 resulted in the return of the Council that held office during the previous year. Mr. John Parton, C.A., of the firm of Webb, Read, Hegan & Co., has been re-elected President, and Mr. F. C. Gilbert, of the firm of Gilbert & Laird, Vice-President. Mr. W. J. Spence, of the University of Manitoba, is again Secretary-Treasurer.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NOVA SCOTIA.

(Incorporated 1900.)

J. R. Blackett, President. G. Wallace Dickson, Secretary.

During the past summer the matter of remuneration for services rendered by Chartered Accountants and Auditors, members of our Institute, was dealt with and a "Tariff of Fees" prepared, which, after being approved by Council, was recommended to the members of the Institute.

The annual examinations were held in June last, five candidates presenting themselves, of whom two of the Preliminary were successful. The dual system of examining the MSS. has been continued successfully.

The membership of the Institute now stands at thirty-six, viz., thirty-three reported to the D.A.C.A., as resident in Canada, also one other resident in Canada whose home membership is in the Institute of Chartered Accountants of Ontario, one resident in Newfoundland, and one in India.

We think mention should be made regarding the Province of Ontario claiming Succession Duties on Dominion of Canada War Loan Registered Bonds held by the estates of deceased persons who were at the time of their death domiciled within other Provinces of the Dominion. This, in our opinion, is most inequitable, as Ottawa as the Head Office and Capital of the Dominion, belongs just as much to Nova Scotia or any other Province as to Ontario. Why should these estates be penalized by the Province of Ontario at the expense of their own Province, because the patriotic subscribers to these loans in their lifetime, in order to safeguard their holdings, had their bonds registered? What is to be the status regarding bearer bonds? We should be glad to have a further expression of opinion on these matters.

WANTED.

October, 1911; April, 1912; July, 1915.

Several subscribers wanting to bind their magazines are short some of these numbers.

Dominion Association of Chartered Accountants

OFFICERS 1918-1919

President:

JOHN PARTON .. .. Winnipeg, Man.

Vice-President:

ARTHUR C. NEFF .. .. .. Toronto, Ont.

Secretary-Treasurer:

W. D. GLENDENNING .. .. Winnipeg, Man.

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Bryan **Pontifex**, Toronto, Ont. ..	
John **Parton**, Winnipeg, Man. ..	The Institute of Chartered Accountants of Manitoba.
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W. W. **Gould**, Edmonton, Alta. ..	

OFFICIAL LIST MEMBERS DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS.

NOTE.—This list does not contain the names of those members of a Provincial Society non-resident in Canada, By-Law No. 1 of the Dominion Association of Chartered Accountants providing "the membership shall be *ipso facto* the members in good standing resident in Canada," etc.

The Association of Accountants in Montreal.

Name.	Address.
Apedaile, J. L.	17 St. John Street, Montreal.
Baker, C. W.	232 St. James Street, Montreal.
Baker, E. M.	80 St. Francois Xavier St., Montreal.
Bennett, E. J.	125 St. Peter Street, Montreal.
Birnie, J. G.	232 St. James Street, Montreal.
Brimacombe, L.	180 St. James Street, Montreal.
Brodie, A B.	145 St. James Street, Montreal.
Campbell, S. R.	142 Notre Dame Street W., Montreal.
Cinq Mars, A.	50 Notre Dame Street W., Montreal.
Clague, J. A.	142 Notre Dame St. W., Montreal.
Cole, A. W.	157 St. James Street, Montreal.
Cole, Ernest C.	84 Commercial Union Building, Montreal.
Creak, George	80 St. Francois Xavier Street, Montreal.
Cross, A.	142 Notre Dame Street West, Montreal.
Currie, G. S.	179 St. James Street, Montreal.
Cushing, L.	80 St. François Xavier Street. Montreal.
Davenport, Geo.	Room 200, 103 St. Francois Xavier St., Montreal.
Davy, J. H.	211 McGill Street, Montreal.
Dickson, W. F.	120 St. James Street, Montreal.
Dowie, L. A.	142 Notre Dame Street West, Montreal.
Duff, J. M. M.	107 St. James Street, Montreal.
Durnford, Geo.	189 St. James Street, Montreal.
Edwards, H. P.	107 St. James Street, Montreal.
Ferrie, R.	109 Board of Trade Building, Montreal.
Fisk, A. K.	703-4 Eastern Townships Bank Building, Montreal.
Gagnon, P. A.	316 Quebec Bank Building, Montreal.
Grant, J. A.	142 Notre Dame Street West, Montreal.
Hains, John McD.	412 Coristine Building, Montreal.
Hill, M. S. T.	263 St. James Street, Montreal.
Hodgson, C. A.	80 St. Francois Xavier Street, Montreal.
Hodgson, G. W.	511 Power Building, 83 Craig Street West, Montreal.
Hope, A. E. M.	263 St. James Street, Montreal.
Hutchison, Jas.	80 St. Francois Xavier Street, Montreal.
Hyde, John	304 Merchants Bank Building Montreal.
Jones, W. S.	137 McGill Street, Montreal.

Keddie, J. M.	British Chemical Co., Trenton, Ont.
Kerr, David S.	145 St. James Street, Montreal.
Kingan, G. B.	120 St. James Street, Montreal.
Kent, L.	86 Notre Dame Street West, Montreal.
L'Heureux, J. A.	11 Place D'Armes, Montreal.
Larue, J. A.	126 Rue St. Pierre, Quebec.
Macintosh, P.	157 St. James Street, Montreal.
McDonald, G. C.	52 Metropolitan Building, Montreal.
Midgley, H. E.	103 St. François Xavier Street, Montreal.
Miller, Robt.	Montreal.
Mitchell, A. F.	69 St. François Xavier Street, Montreal.
Mundell, W. J.	27 Alloway Avenue, Winnipeg, Man.
Murray, Jr., J. R.	241 Clarke Ave., Westmount, Que.
McCarthy-Jones, G.	c/o Riddell, Stead, Graham & Hutchison, 80 St. Francois Xavier St., Montreal.
Paterson, C. A.	157 St. James Street, Montreal.
Paterson, John	80 St. François Xavier Street, Montreal.
Payne, Gordon S.	551 Lansdowne Avenue, Westmount, Que.
Peckham, S. Brittain.	142 Notre Dame St. W., Montreal.
Peel, Edwin	109 Board of Trade Building, Montreal.
Piper, H. S. T.	157 St. James Street, Montreal.
Plimsoll, A. H.	189 St. James Street, Montreal.
Probyn, Percival	608 Dominion Express Bldg., Montreal.
Rathie, W. W.	120 St. James Street, Montreal.
Riddell, A. F.	80 St. Francois Xavier Street, Montreal.
Ritchie, C. F.	211 McGill Street, Montreal.
Robertson, A. S.	202 Southam Building, Montreal.
Ross, Alex. F. C.	142 Notre Dame Street West, Montreal.
Ross, J. G.	142 Notre Dame Street West, Montreal.
Ross, John W.	142 Notre Dame Street West, Montreal.
Savage, E. B.	86 Notre Dame Street, Montreal.
Savage, G. A.	91 Commercial Union Building, Montreal.
Scott, Gordon W.	142 Notre Dame Street West, Montreal.
Sharp, F. W.	501 Power Building, Montreal.
Skelton, C. Harold	703-4 Eastern Townships Bank Building, Montreal.
Smith, H. Meredith.	189 St. James Street, Montreal.
Stead, A. C.	80 St. François Xavier Street, Montreal.
Stevenson, A. W.	802 Eastern Townships Bank Building, Montreal.
Stevenson, Reginald C.	c/o A. K. Fisk, Skelton & Co., 263 St. James St., Montreal.
Trudel, Eugene	126 St. Peter Street, Quebec, Que.
Wilson, Robt.	Board of Trade Building, Montreal.
Wilson, W. S.	91 Commercial Union Building, Montreal.
Wurtele, E. F.	Morin Block, Quebec, Que.

The Institute of Chartered Accountants of Ontario.

Name.	Address.
Adams, A. W.	36 Toronto Street, Toronto.
Anderson, J. D.	122 Board of Trade Building, Montreal.
Andrews, W S.	4 Beaumont Road, Toronto.
Atkinson, J. L.	Room 21, 10 Adelaide St. East, Toronto.
Barber, Henry	18 Wellington Street East, Toronto.
Bates, H. S.	102 Bank Street, Ottawa.
Baxter, P. C.	85 Bay Street, Toronto.
Begg, G. M.	262 Carlton Street, Toronto.
Benson, Wm. C.	120 Bay Street, Toronto.
Blanchard, A.	93 Worthington Street West, North Bay.
Blatch, G. L.	193 Sparks Street, Ottawa.
Boulton, A. St. G.	15 Wellington Street West, Toronto.
Brown, J. Albert	Athelma Apartments, Toronto.
Bunnell, A. K.	City Hall, Brantford.
Burns, R. E.	Ontario Chambers, Kingston.
Calder, A. G.	693 Talbot Street, London, Ont.
Campbell, G. D.	59 Yonge Street, Toronto.
Chamberlain, A. F.	74 Nepean Street, Ottawa.
Clark, T. S.	Cobalt, Ont.
Clarke, J.	32 Church Street, Toronto.
Clarke, J. J.	Toronto.
Clarkson, E. R. C.	15 Wellington Street West, Toronto.
Clarkson, G. T.	15 Wellington Street West, Toronto.
Cooper, R. J.	44 Heath Street East, Toronto.
Craig, W. H.	109 Gore Street, Kingston.
Crawford, J. E.	136 N. Franklin Street, Fort William.
Crawley, A. A.	50 Albert Street, Ottawa.
Cringan, J. W.	633 Church Street, Toronto.
Cunningham, G. de H.	165 Spark Street, Ottawa.
Cunningham, J. F.	165 Spark Street, Ottawa.
Dawson, P. H. B.	Union Bank Chambers, Fort William.
Day, Q. D.	Room 28, 82-88 King Street E., Toronto.
Dilworth, R. J.	15 Wellington Street West, Toronto.
Doggerell, A. J.	776 Wellington Street, London.
Draper, Gordon V.	444 Roxton Road, Toronto.
Dunlop, W. M.	Citizen Building, Ottawa.
Eddis, W. C.	706 Continental Life Building, Toronto.
Eddis, J. W.	706 Continental Life Building, Toronto.
Eddis, C. S.	706 Continental Life Building, Toronto.
Edwards, A. Geoffrey	10 Adelaide Street E., Toronto.
Edwards, Geo.	10 Adelaide Street E., Toronto.
Edwards, Oswald N.	10 Adelaide Street E., Toronto.
Falls, A. F.	Victoria Block, Chatham, Ont.
Fenton, Wilson	17-31 King Street East, Toronto.
Ferguson, W. S.	Forum Building, Toronto.

Fisher, A. M. ...... 33 B, Board of Trade Building, Montreal.
Fleming, C. A. .... 823 Second Avenue, Owen Sound.
Geggie, Thomas P... 116 Dowling Avenue, Toronto.
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Gerry, Nelson B.... 63 Hewitt Avenue, Toronto
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Goodman, M. ...... 1617 Mance St., Montreal.
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Gunn, Edmond ..... 25 Toronto Street, Toronto.
Gunn, R. L. .... 10 Gore Street, Hamilton.
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Harbinson, V. D.... 15 Wellington St. West, Toronto.
Hardy, James ...... 15½ Toronto Street, Toronto.
Haywood, L. J. .... 48 Canada Life Building, Toronto.
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Hilborn, Melvin .... 1315 Bank of Hamilton Bldg., Toronto.
Hillman, H. P. L... 648 Ontario Street, Toronto.
Howson, E. J. ...... 1315 Bank of Hamilton Bldg., Toronto.
Hudson, O. M. .... 32 Church Street, Toronto.
Hughes, John ...... c/o Marwick, Mitchell, Peat & Co., Winnipeg.
Hume, James S. .... 40 College Street, Toronto.
Hurst, Fred. C...... 25 Toronto Street, Toronto.
Jackson, J. A. ...... 150 Carling Avenue, Ottawa.
Jamieson, H. T..... Royal Bank Building, Toronto.
Jenkins, Thos. ..... 15½ Toronto Street, Toronto.
Jephcott, A. .... 469 King Street West, Toronto.
Jewell, F. G. ...... 314 Dominion Savings Building, London.
Johnson, J. W., M.P.P. Belleville.
Johnson, R. W. .... "Times" Building, St. Thomas.
Kernahan, W. T..... 17 Gould Street, Toronto.
Kerr, Frank L. ..... 15 Wellington Street W., Toronto.
Kettlewell, W. C.... 14 Montclair Avenue, Toronto.
Kidd, F. H. .... 404 Central Building, Victoria, B.C.
Kittson, H. N. ..... 25 Main Street West, Hamilton.
Lang, J. N.......... Care of Hydro-Electric System, Toronto.
Langley, J. P. ..... McKinnon Building, Toronto.
Larmonth, E. A..... 46 Elgin Street, Ottawa.
Lawless, Thos. E. .. 142 Bloor Street W., Toronto.
Lawson, J. F. ...... Crown Life Building, Toronto.
Lawson, A. T....... 907 Excelsior Life Building, Toronto.
Leishman, E. J. .... Queen's Court Apartments, Jarvis Street, Toronto.

Levack, W. P.	519 Roxton Road, Toronto.
Lord, H. L.	St. Blaise, Que.
Macdonald, D. B. ...	510 Lumsden Building, Toronto.
Macnamara, Theo. T.	10 Adelaide Street E., Toronto.
Mapp, Jai V.	15 Wellington Street W., Toronto.
Martin, J. S.	67 Lowther Avenue, Toronto.
Martin, N. L.	64 Wellington Street W., Toronto.
Merson, G. O.	807 Lumsden Building, Toronto.
Miller, A. A.........	15 Wellington Street West, Toronto.
Milne, A. M.	288 First Avenue, Ottawa.
Morgan, W. P.	69 Oriole Road, Toronto.
Morphy, Arnold	Upper Canada College, Toronto.
Morris, W. R.	375 Water Street, Peterboro'.
Morrison, G. W.....	70 Wellington Street West, Toronto.
Morrison, S. A	304 Crown Life Building, Toronto.
Mortimer, H.	Confederation Life Building, Toronto.
Mulholland, G. M...	1315 Bank of Hamilton Building, Toronto.
Mutrie, J. T.	Vernon, B.C.
McClelland, D. McK.	802 Royal Bank Building, Toronto.
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THE NEW YEAR.

WE commence the year of grace one thousand nine hundred and nineteen under circumstances which call for great thankfulness, in the first place, that the terrible war, which has shaken the whole world, is ended. Right has triumphed, the ideas of world domination by one nation have been crushed, and peace with victory attained. To those who have directly taken part in the defence of our liberties we owe an unending debt of gratitude. We can but hope to obtain receipts "on account." Let our payments, whether in coin, kind or personal devotion, be of an amount equal to our fullest possibilities, conscientiously determined, remembering that the only repayment we can make to those who have fallen is that which we give to the near and dear ones they have left. While, as accountants, we may think first of those of our own calling, let us not be circumscribed by any lines, either of profession, religion, rank or social standing; but to feel our duty to all our brave compatriots, whether living or dead, who stood between us and the Hun.

There are other circumstances, however, which, mainly as a result of the war, call for our energies this year and for some years to come. Such an upheaval as this is bound to bring many after-effects in its train. Revolution is in the air; Russia is in a chaotic condition, and Germany and her late allies are, with Russia, likely to tax the resources of diplomacy and statecraft for some years. Unless strong and tactful measures are taken, Bolshevism, like the dreaded influenza scourge, may spread its evil germs over all nations, and, while we feel sure that, to quote Tennyson, eventually

> "Good may come,
> At last to one, at last to all,
> And every winter change to spring,"

we also must make up our minds that, after the stress and strain of the past four years, it will be well for us all to consummate the desired end in the shortest possible time. This can only be done by each and every one of us using every effort, individually as well as collectively. It must not be entirely left to those we place in authority; but, however small and humble our lot in life, we all can, and must, assist to the utmost of our power. It may be that all some can do is to carry out their daily work conscientiously and live clean and honest lives. This in itself will help. Others may have the ability and the time to do more. When such, estimating their ability and time at their disposal, let them be honest with their fellowmen and themselves, and make a sharp distinction between the time-killing pleasures, which have no real value, and those useful occupations which will all help to make this a brighter and better world.

Our profession will demand, with other things, our best energies. We already have many means of helping; let us consider as to whether we can find more. Commercial education will be a tremendous feature in the future of our country. The necessity of keeping our ranks filled with competent and capable men is becoming more and more important. The standards of our various constituent bodies should be as nearly uniform as possible. Means of dissemination of the latest and brightest thought on our problems at the shortest intervals are desirable. These and many other points should command our attention, and it is hoped that, when we again meet in Winnipeg this year, that full discussion of a helpful nature will ensue, leading to wise determination on all such points, useful and profitable both to ourselves as Accountants and to the community in general. In the meantime, each of us should give consideration to all difficulties that arise, and if anything can be done by the Dominion Council, they will be glad to do it if communicated with through the Secretary.

I wish you all a very happy and prosperous new year.

JOHN PARTON,
President.

There is no influence in any community more potent and powerful for the accomplishment of good than that of the business and professional men unselfishly banded together for the purpose of promoting the general welfare of the entire citizenship.—James Bryce.

STANDARDIZATION OF SHAREHOLDERS' ACCOUNTS AND AUDITORS' REPORTS AND CERTIFICATES.

By J. C. Gray, C.A. (Scot. and Can.,) Toronto.

ACCOUNTANTS will notice with satisfaction from the October number of the "Journal of Accountancy" that the American Institute of Accountants are to appoint a committee to consider the standardization of accounting procedure. Whether or not the objects of this proposed committee will include the question of the standardization of auditors' accounts and reports is not clear, but no doubt their work is bound to touch on this more or less, particularly as there would appear to be a considerable field for betterment in this respect which could be handled to advantage at the same time.

When the labors of this committee are completed and its report and recommendations are available for the use of other societies it would be an opportune moment for the Canadian societies to take these up and adapt them, where suitable and desirable, to conditions in this country. It is with the object of anticipating this event and of making a few observations of my own that this article on "Standardization of Shareholders' Accounts and Auditors' Reports and Certificates" is written.

The following should always be borne in mind when drawing up and submitting accounts of a company for its shareholders' use and information:—

1. The provisions of the Companies' Acts regarding the information to be given on a balance sheet should be observed. As these are given in Section 12 of The Companies' Act Amendment Act, 1917, it is unnecessary to refer to them in detail.

2. The accounts should be set up and prepared in such a manner that one year or period may be readily compared with another. The wording used should be simple and clear, and technical terms should be avoided where possible. When one takes into consideration the fact that the majority of the shareholders of most public companies do not understand very much about accounting the desirability for the above is apparent.

3. Where a company is a public one, sufficient information should be given in its annual accounts to enable a prospective investor in its stock, through the medium of the stock exchange, to size up its financial position quickly, and, without seeking further information from outside sources than is necessary, to decide whether or not he will invest. Moreover, the stock exchange will always regard with more favor those stocks which are backed up with financial statements that are clearly and simply drawn up than those that are not. This also applies to bankers, who, as

a rule, are not very well informed in the art of understanding and determining financial positions of companies and the values of investments, and, consequently, will be inclined to listen more eagerly to petitions for credit which are supported by accounts that they can understand.

It can, therefore, be understood that the manner in which a company's accounts are prepared, and by this I do not mean the neat, and sometimes the rather flashy way in which they are bound, although, if this is not overdone, it counts in their favor, may take quite an important place in an investor's or banker's estimation.

In Accounts Nos. 1, 2 and 4, which I submit herewith, are embodied what I understand to be the most recent accounting practice in the United States, to which I have added a few ideas and suggestions of my own.

Balance Sheet—Account No. 1.

Referring to the balance sheet first of all as being the most important of the accounts which are submitted to the shareholders of a company, and which is, indeed, the only financial statement that they are legally entitled to, I would draw attention to the

Arrangement and Order of Assets and Liabilities.

The arrangement that I have adopted is that of starting off with the assets that can be most quickly and readily realized at the least sacrifice and finishing with those that have no value at all, except under unusual circumstances. For example, the cash in bank appears before the inventories, which occasionally have to be liquidated at a loss or in completing unprofitable orders. Cash, too, can be realized at very short notice, whereas inventories, as a rule, cannot. With regard to the arrangement of the liabilities, I have started off with those that are most immediately and urgently due for settlement, followed by those that are deferred, such as the bonds, and have finally shown the capital and surplus, for which, as a rule, no definite dates have been arranged for repayment. It is the practice of many accountants to start off the balance sheet with the capital assets, followed by the current assets, and complete the debit side with the deferred charges to operations, and on the credit side to start with the capital, followed by the bonds, current liabilities, reserves, and finish up with the surplus. The most notable advantage to be gained by using the method that I have adopted in these accounts is that, with the majority of people who are studying balance sheets, be they investors, bankers, stock brokers or the general public, the most important feature in their eyes is the liquid position of the company. Hence, the first things that they look to are the amount of cash on hand, what the accounts receivable amount to, how large the inventories are as compared with the turnover, and how far the total of these is able to take care of the current liabilities.

With prospective investors in the company's bonds, of course, the security in the form of capital assets is the most important thing to be considered, but these gentlemen are few in number as compared with those interested in stock and shares.

In concluding this paragraph, let me refer to the ease with which one, on taking up the balance sheet, is able to ascertain that the current assets exceed the current liabilities by $2,435,135.62, and that the bonds are secured four times over by the capital assets. Can this information be as readily and quickly obtained from Account No 3, which, I regret to say, is a form of balance sheet only too commonly used?

Investments.

The inclusion of investments among current assets is noticeable, since the treatment of such assets on balance sheets is very frequently to show them as distinct from either capital or current assets, and in a section of their own. Where the investments are in such readily liquidated securities as government bonds, I do not see any good reason for distinguishing them from other current assets, for, although there is a tendency for their market value to vary from time to time, and, although moneys in bank earn a lower rate of interest, there is practically no difference between the two, so far as facilities to liquidate both are concerned. Both are repayable at par, the bonds at some date in the future, and the cash at once—except so far as the bank may elect to make use of a prerogative that it seldom cares to exercise.

Investments by a company in the stock of a competitor whose stock it may propose to acquire the control of, should, however, but only so long as it does not own the controlling interest, be shown on the balance sheet under the head of "Investments" and distinct from the current or capital assets. The reasons for this are that these investments cannot, as a rule, be readily and quickly realized, and that they are not made for the purpose of investing the company's surplus cash to the best advantage, pending its utilization in the business to meet future requirements, but for the future development and extension of the business. To this extent these investments partake more of the nature of capital than of current assets.

Where the controlling interest of another company is owned the rules regarding holding company balance sheets should be observed.

Prepaid Expenses.

The inclusion of prepaid taxes and insurance, etc., among current assets is worthy of comment. It is the custom among accountants at present to show these under "Deferred Charges to Operations," and the explanation that I would offer for the suggested change in treatment is that, since taxes and insurance are almost entirely eventually absorbed in overhead expense (that is, where the company is a manufacturing one), they automatically become part of work-in-progress through the distribution of the overhead expense, and should, therefore, not be treated differently from work-in-progress in the balance sheet. The same applies to factory supplies. With reference to stationery, advertising material, and that proportion of the taxes and insurance which, having regard to the floor space, value of equipment and furniture, etc., allocated to and used by the selling and administrative departments of the business, is chargeable to the latter as part of their expense, I consider that the values of these, as inventoried and computed, respectively, should be set up in the balance sheet under the head of "Deferred Charges to Operations." No doubt there is a small cash value attachable to these inventories, and possibly something could be obtained for the unexpired taxes from the purchaser of the company's business in the event of its sale or liquidation, but, as a balance sheet is always supposed to represent the position of the company as a going concern, I do not consider it correct to include these under "Current Assets," except, of course, that part of taxes and insurance which, as I have already mentioned, will eventually become part of work-in-progress.

Capital Assets.

With regard to the capital assets of a company, it is sometimes desirable, and cannot under any circumstances be harmful, to show the increases or decreases in these since the last statement. This information can, of course, be gleaned by comparing the two statements, so that it is doubtful whether it is any advantage at all to show the comparison as suggested above. Should it be done, it would be necessary to start off the balance sheet with the capital assets instead of with the current assets, since the inclusion of the headings necessary to give this information in the middle of the statement would give the latter a rather clumsy and overbalanced appearance.

Bond Interest Accrued.

So far as I have been able to discover, there is no accepted rule providing whether this should be shown on the balance sheet as a current liability or as part of the bonded indebtedness. I have included it as part of the latter on account of its not being due for immediate payment. In other words, I have treated this item as a deferred liability. In the event of the company going out of business or defaulting on its bond interest, the outstanding and accrued interest on the bonds would, together with the principal thereof, be redeemed out of the proceeds of the sale of the company's capital assets on which they are secured. Until these contingencies materialize, however, bond interest due for payment and accrued bond interest have no preferable charge on the assets of the company. In view of these remarks, I am of the opinion that the correct way to show bond interest due for payment is under "Current Liabilities" and accrued bond interest as part of the bonded indebtedness.

Unclaimed Dividends.

On most balance sheets of public companies that I have inspected I notice liabilities brought on for unclaimed dividends, the cash in bank set apart to meet these being shown as part of the cash in bank and on hand.

It would appear to me that this practice is incorrect, inasmuch as immediately the money is set aside by the company to meet these dividends it loses its claim thereon, and, consequently, cannot treat this as part of its assets or the liability therefor as part of its liabilities.

Balance Sheet Generally.

The segregation of the reserve for depreciation under "Reserves," instead of as a deduction from capital assets, as it is frequently shown, and the fact that unissued capital stock is not treated as treasury stock, which is an altogether different thing, are the only other points worthy of particular notice.

It may be argued that the balance sheet as submitted by me goes into too great detail, but this can be adjusted as circumstances demand. For example, it is by no means necessary or required by law to subdivide the inventories as between manufactured goods, goods in process of manufacture, and raw materials and supplies, nor is it always desirable to give as full particulars as I have done of how the capital assets are made up, except to state how much of these consists of goodwill.

Profit and Loss Account—Account No. 2.

Account No. 2 is straightforward, and calls for little or no explanation. The information given by me in this statement might be more condensed, as, for example, the dividends need not be given in detail, and if this were sufficiently done it would be possible to incorporate the whole profit and loss account in the balance sheet under the head of "Profit and Loss Account" instead of giving it in the form of a separate statement. The former is quite a common practice in the balance sheets of many large companies.

The profit and loss account, as I have presented it, indicates that the profits for the year were $854,500.00, and that, after providing $35,000.00 for necessary reserves and $210,000.00 for dividends, here remained a surplus for the year of $609,500.00, or 15.2375 per cent. on the common shares. In certain profit and loss accounts that have come before my notice it has only been possible after rearrangement thereof to determine whether or not there was a surplus on the year's operations. The following profit and loss account of one of our leading Canadian industrial companies—Account No. 5—gives an example of what I mean. This shows that the surplus at the commencement of the year dwindled from $403,300.05 to $242,801.70 at the end of the year. It *does not show* that the net profits fell short of preference dividend requirements by $160,498.35.

Clearness in accounts is, in my opinion, most essential, and auditors should never rest content that they have done their duty by the shareholders of the companies whose books they are auditing until they have furnished for their information and use such a statement of the company's affairs as they (the shareholders) can readily understand and without an undue amount of analysis, comparison, etc.

Operating Account—Account No. 4.

It is seldom either necessary or advisable to furnish the shareholders of a company with such detailed information of operations as I have given in Account No. 4, but as an example of what, in my opinion, their directors are entitled to expect from its executives, I give it for what it is worth. The chief recommendations, to my mind, are the clearness with which the total net sales, the manufacturing cost of sales, the selling expense, the administration and general expense, etc., and the resulting net profit on operating are set forth. The percentages of cost of sales and of expenses on sales are also given, as is also the percentage of manufacturing expense on productive labor. All this information is immediately available for ready comparison with other years, and what is true of years can also be said for shorter periods, since the system of accounts from which this information is derived should permit of similar information being available for the latter.

Auditors' Reports and Certificates.

The Companies' Act Amendment Act, 1917, in Section No. 11 provides that the auditors of a company shall make a report in which they shall state: (a) whether or not they have obtained all the information and explanations they have required; and (b) whether, in their opinion, the balance sheet referred to in their report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs, according to the best of their information and the explanations given to them, and as shown by the books of the company.

In spite of this requirement, it is still the practice of many accountants to issue their accounts with the notations of "audited and found correct," "certified correct," "audited," etc., attached. Sometimes one only finds their names, as, for example, "John Jones, Auditor." Needless to say, these offenders are seldom chartered accountants.

A form of certificate which complies with legal requirements and is to the point, and does not say more or less than is necessary, is, to my mind, found in the following:—

Toronto, 1st December, 1918

To the Shareholders,
The Toronto Manufacturing Company, Limited,
1400 Queen Street South,
Toronto.

I report to the Shareholders of the Toronto Manufacturing Company, Limited, that I have examined the books and accounts of the company for the year ending 31st December, 1917, and that all my requirements as auditor have been complied with.

(Then state qualifications, if any.)

A provision of only $100,000.00 has been made for depreciation, but all repairs and renewals to buildings, plant and equipment have been charged to operating account.

Subject to the above remark, I hereby certify that the attached balance sheet at 31st December, 1917, Account No. 1, is, in my opinion, properly drawn up so as to exhibit a true and correct view of the company's affairs at that date, according to the best of my information and the explanations given me and as shown by the books of the company at that date.

J. C. GRAY,
Chartered Accountant, Auditor.

Conclusion.

In an article on such a subject as the foregoing one is naturally limited by the space available, and, in any event, it is extremely difficult to explain as clearly as one would wish the many points and questions involved without reference to more actual accounts and statements than it is possible for the same reason to give. The accounts used by me are those of a manufacturing company, and, consequently, certain of the remarks which I have made are only applicable to such and cannot appropriately be applied to the accounts, say, of a bank or a real estate or mining company. The principles of arrangement and classification are, however, interchangeable to quite an appreciable extent.

The Toronto Manufacturing Company, Limited.

Balance Sheet as at 31st December, 1917.

ASSETS.

Current Assets:—			
Cash in Bank and on Hand		$ 500,000.00	
Investments:—			
$500,000.00 in Dominion of Canada 5½% (First Victory) Loan Bonds, repayable 1st December, 1922, at Cost, plus Accrued Interest to Date (Market Value, $494,835.62)		502,335.62	
Prepaid Expenses:—Insurance and Taxes Unexpired, etc.		9,000.00	
Accounts Receivable:—			
Trade Accounts and Bills Receivable	$ 480,000.00		
Less:—			
Reserve for Doubtful Accounts	10,000.00		
	$470,000.00		
Advances to Officers	5,000.00		
Owing by Directors	1,300.00		
		476,300.00	
Inventories as certified to:—			
Manufactured Goods	$ 500,000.00		
Goods in Process of Manufacture	150,000.00		
Raw Materials and Supplies	2,350,000.00		
		3,000,000.00	
Total Current Assets			$ 4,487,635.62
Sinking Fund Assets:—			
Cash in Hands of Trustee			364.38
Capital Assets:—			
Land	$ 460,000.00		
Buildings	540,000.00		
Plant and Machinery	7,550,000.00		
Small Tools and Equipment	250,000.00		
Office Furniture and Fixtures	25,000.00		
		$8,825,000.00	
Goodwill, Patents, Trade Marks, etc.		2,175,000.00	
Total Capital Assets			11,000,000.00
Deferred Charges to Operations:—			
Sundry Prepaid Expenses		$ 1,000.00	
Discount on Bond Issue—unabsorbed Balance		75,000.00	
Total Deferred Charges to Operations			76,000.00
			$15,564,000.00

Approved on behalf of the Board.

Directors.

ACCOUNT No. 1.

The Toronto Manufacturing Company, Limited.

Balance Sheet as at 31st December, 1917.

CAPITAL AND LIABILITIES.

Current Liabilities:—			
Trade Accounts Payable, and Accrued Salaries and Wages, Charges, etc. (including Provision for War Tax)		$1,275,000.00	
Loans from Banks, secured under Section 88 of the Bank Act		725,000.00	
Dividend No. 8 on Preference Shares for three months to date, declared, payable 1st February, 1918		52,500.00	
Total Current Liabilities			$ 2,052,500.00
Bonded Indebtedness:—			
First Mortgage 6% 20-year Gold Bonds, due 1st March, 1929:—			
Authorized	$3,000,000.00		
Issued	$2,500,000.00		
Less:—			
Redeemed to date.	250,000.00		
		$2,250,000.00	
Add:—			
Interest Accrued to Date		45,000.00	
			2,295,000.00
Reserves:—			
Reserve for Contingencies		$ 100,000.00	
Do. for Depreciation		750,000.00	
Do. for Extraordinary Repairs and Renewals		150,000.00	
			1,000,000.00
Capital Stock:—			
Authorized:—			
Preference—35,000 shares, 7% Cumulative of $100.00 each		$3,500,000.00	
Common—40,000 shares of $100.00 each		4,500,000.00	
		$8,000,000.00	
Issued:—			
Preference—30,000 shares, 7% Cumulative of $100.00 each, fully paid		$3,000,000.00	
Common—40,000 shares of $100.00 each, fully paid		4,000,000.00	
			7,000,000.00
Profit and Loss Account:—			
Balance at credit thereof, per Account No. 2			3,216,500.00
			$15,564,000.00

NOTE.—There is a Contingent Liability for Bills Receivable under Discount amounting to $150,000.00.

ACCOUNT No. 2.

The Toronto Manufacturing Company, Limited.

Profit and Loss Account for Year ending 31st December, 1917.

Profit from Operations for Year ending 31st December, 1917, after deducting $100,000.00 for Depreciation and providing for War Tax		$1,002,914.38
Add: Interest from Investments		7,835.62
		$1,010,750.00
Deduct: Bond Interest	$ 150,000.00	
Proportion of Discount on Bond Issue	6,250.00	156,250.00
Net Profits from Operations for Year		$ 854,500.00
Less:		
Transferred to Reserve for Contingencies	$ 15,000.00	
Transferred to Reserve for Extraordinary Repairs and Renewals	20,000.00	35,000.00
		$ 819,500.00
Less:		
Dividends on Preference Shares:—		
No. 5 for three Months ending 31st March, 1917	$ 52,500.00	
No. 6 for three Months ending 30th June, 1917	52,500.00	
No 7 for three Months ending 30th September, 1917	52,500.00	
No. 8 for three Months ending 31st December, 1917	52,500.00	210,000.00
Surplus for Year = 15.2375% on Common Shares		$ 609,500.00
Add:		
Balance at credit of Profit and Loss at 31st December, 1916	$2,679,000.00	
Deduct: Adjustments thereon.	72,000.00	2,607,000.00
Balance at Credit of Profit and Loss at 31st December, 1917, per Account No. 1		$3,216,500.00

ACCOUNT No. 3.

The Toronto Manufacturing Company, Limited.

Balance Sheet as at 31st December, 1917.

ASSETS.

Land and Buildings—less Depreciation	$ 750,000.00
Plant and Equipment—less Depreciation	7,075,000.00
Sundry Equipment—less Depreciation	250,000.00
Goodwill, etc.	2,175,000.00
Investments (detailed)	502,700.00
Cash in Bank and on Hand	500,000.00
Accounts Receivable, less Reserve for Doubtful Accounts	476,300.00
Inventories	3,000,000.00
Prepaid Expenses	10,000.00
Discount on Bond Issue	75,000.00
	$14,814,000.00

Approved on behalf of the Board.

Directors.

CAPITAL AND LIABILITIES.

Capital :—		
Preference—Authorized	$3,500,000.00	
Common—Authorized	4,500,000.00	
	$8,000,000.00	
Less : In Treasury	1,000,000.00	
		$ 7,000,000.00
Bonds	$2,500,000.00	
Less : In Treasury	250,000.00	
		2,250,000.00
Liabilities :—		
Trade Accounts and Accrued Charges		1,275,000.00
Loans from Banks		725,000.00
Preference Dividend No. 8		52,500.00
Accrued Bond Interest		45,000.00
Reserve for Contingencies		100,000.00
Reserve for Extraordinary Repairs and Renewals		150,000.00
Profit and Loss Account		3,216,500.00
		$14,814,000.00

NOTE.—There is a Contingent Liability for Bills Receivable under Discount amounting to $150,000.00.

ACCOUNT No. 4.

The Toronto Manufacturing Company, Limited.

Operating Account for Year ending 31st December, 1917.

Sales			$10,100,000.00	
Less: Returns and Allowances			100,000.00	
Net Sales				$10,000,000.00
Deduct: **Manufacturing Cost of Sales** (70% of Net Sales.)				
Inventory of Manufactured Goods at 31st December, 1916			$ 600,000.00	
Add:—				
Cost of Production:—				
Materials used:—				
Inventories of Raw Materials and Work-in-Progress at 31st December, 1916		$2,600,000.00		
Add:—				
Purchases of Raw Materials during year (including duty, freight and cartage)		4,040,000.00		
		$6,640,000.00		
Deduct:—				
Inventories of Raw Materials and Work-in-Progress at 31st December, 1917		2,500,000.00		
		$4,140,000.00		
Productive Labor		1,725,000.00		
Manufacturing Expenses (60% of Productive Labor).				
Non-prod. Labor	$ 525,000.00			
Maint. and Repair	250,000.00			
Depreciation	100,000.00			
Superintendence	25,000.00			
Insce. and Taxes	125,000.00			
Light, Heat and Power	80,000.00			
Miscellaneous	50,000.00			
Forward	$1,155,000.00	$5,865,000.00	$ 600,000.00	$10,000,000.00

ACCOUNT No. 4.—Continued.

The Toronto Manufacturing Company, Limited.

Operating Account for Year ending 31st December, 1917.—Continued.

Forward	$1,155,000.00	$5,865,000.00	$ 600,000.00	$10,000,000.00
Less:—				
Proportion chargeable to Selling and General Expense	120,000.00	1,035,000 00	6,900,000.00	
			$ 7,500,000.00	
Deduct:				
Inventory of Manufatured Goods at 31st December, 1917			500,000.00	
Total Manufacturing Cost of Sales......			$ 7,000,000.00	
Deduct: **Selling Expense** (10% of Net Sales).				
Salesmen's Salaries		$250,000.00		
Branch Expense		340,000.00		
Commission		75,000.00		
Travelling and Hotel Expenses.....		65,000.00		
Shipping Expense		55,000.00		
Freight and Cartage outward		70,000.00		
Proportion of Manufacturing Expense (as above)		70,000.00		
Miscellaneous		75.000.00		
Total Selling Expense			1,000,000.00	
Deduct: **Administration and General Expense (5% of Net Sales).**				
Office Salaries		$275,000.00		
Executive Salaries		75,000.00		
Printing, Stationery and Office Supplies		15,000.00		
Telephones, Telegrams and Cables.		7,000.00		
Provision for Bad and Doubtful Debts		25,000.00		
Proportion of Manufacturing Expense (as above)		50,000.00		
Miscellaneous		53,000.00		
Total Administration and General Expense			500.000.00	
Deduct: **Interest and Discount paid, less received (.25% of Net Sales)**			25,000.00	
Deduct: **Provision for War Taxes (4.72% of Net Sales)**			472,085.62	8.997,085.62
Balance: **Profit on Operating for Year ending 31st December, 1917 (10.03% of Net Sales)**				$ 1,002,914.38

ACCOUNT No. 5.

The Montreal Manufacturing Company, Limited.

Profit and Loss Account for Year ending 31st December, 1917.

Profit from Operations for Year ending 31st December, 1917		$230,027.30
Add: Interest from Investments		4,586.59
		$234,613.89
Deduct: Net loss on Investments realized	$ 112.24	
Interest on First Mortgage Bonds	90,000.00	
		90,112.24
		$144,501.65
Add: Balance at credit at 31st December, 1916, brought forward		403,300.05
		$547,801.70
Deduct: Dividends on Preference Shares for year:—		
No. 5	$26,250.00	
No. 6	26,250.00	
No. 7	26,250.00	
No. 8	26,250.00	
		105,000.00
		$442.801.70
Deduct: Transferred to Reserve for Depreciation		200,000.00
Balance at credit at 31st December, 1917, per Balance Sheet		$242,801.70

IMPORTANT ACTION.

(From The Accountant.)

THE Institute of Chartered Accountants were the plaintiffs in an action that came before Mr. Justice Eve in the Chancery Division on Wednesday, July 17th. The defendant was Mr. T. A. Hardwick, of Hollyhurst, Pickering, York.

Plaintiffs claimed an injunction to restrain the defendant from continuing to use on his letter paper, circulars and business documents, or otherwise in connection with his business of an accountant and auditor, the words, "Honours Final Inst. Chartered Accountants," or otherwise in such a way as to lead to the belief that he is a member of or otherwise connected with, or entitled to the benefit of any connection with, the plaintiff Institute.

Defendant pleaded that he had used the words complained of in his business letters for a period of over six years without objection by the plaintiff Institute, and had corresponded with numerous firms of Chartered Accountants during such period. He denied that under the Charter or rules of the plaintiff Institute he was disentitled to use the certificate of honours obtained by him at the Final Examination of the plaintiff Institute.

Mr. Maugham, K.C., and Mr. Whinney appeared on behalf of the plaintiffs. Defendant conducted his own case.

In opening the case, Mr. Maugham said that it was the heading of the notepaper that was complained of, and the plaintiffs were compelled, in the interests of Chartered Accountants, to bring this action in order to restrain a deception which they had reason to think the public would probably fall into. The printed heading did not assert, in so many words, that the defendant was a member of the Institute of Chartered Accountants, but after the words, "Accountant and Auditor," there followed the words, "Honours Final Inst. of Chartered Accountants."

The Judge: Is that true?

Mr. Maugham said it was perfectly true that this gentleman did obtain honours in his Final Examination of the Institute of Chartered Accountants, but it was unfortunately also true that, having been a member of the Institute in August, 1900, he was. in June, 1909, adjudicated a bankrupt, and at a special meeting of the Council on July 14th, 1909, was excluded from membership under the provisions of Section 20 of the plaintiffs' Royal Charter.

The Judge: Certainly he has a right to say he has passed the examination with honours.

Mr. Maugham: He says Honours Final, and then Institute of Chartered Accountants.

His Lordship: There is a full stop after Honours Final.

Counsel said the words led people to suppose that the defendant was not only a member of the Institute, but had passed with honours. He did not see how the defendant could use any reference to the Institute which would not be misleading in the circumstances of the case unless he said, "not now a member." There were documents which tended to show that people were deceived. Defendant used a phrase which implied something that was untrue.

His Lordship: What does it imply that is untrue?

Counsel submitted it implied that the defendant was a member of the Institute of Chartered Accountants, because nobody would suppose that he would advertise connection with the Institute from which he had been removed unless he said he was no longer a member.

The Judge: It seems to me he is entitled to announce the fact that he has obtained honours, but I don't like the full stop after the word "Final."

Defendant: It is a comma after Final, not a full stop.

Mr. Maugham said it was clearly a full stop.

Counsel read letters, in one of which defendant said, "I am an honours man of the Institute of Chartered Accountants." He (counsel) submitted that implied that defendant was still a member of the Institute.

Evidence was given by Mr. Edgar Stanford, London, Senior Deputy Chief Inspector of Taxes at Somerset Hause. He said that from the heading of defendant's note paper he would come to the conclusion that the gentleman who wrote the letter was a Chartered Accountant, and not an ordinary Chartered Accountant, but one of extra distinction, having taken honours in the Final Examination. Chartered Accountants, said witness, were regarded as above suspicion, like Cæsar's wife, until something unfortunately was discovered against them.

Mr. Thomas William Bischoff, a solicitor who has been in practice in London for many years, said he would have the impression from the defendant's note-paper that he was a member of the Institute of Chartered Accountants. The term "Chartered Accountant" carried with it distinctly a reputation for integrity and accuracy. The members of the Institute of Chartered Accountants were regarded as reliable persons.

Mr. Stephen Kay, a drysalter, near Bradford, spoke to receiving a communication from Mr. Hardwick, and said he was under the impression for a month that the defendant was a member of the Institute of Chartered Accountants.

Mr. George Colville stated that he had held the office of Secretary of the Institute since 1899. The Institute held examinations, and received fees from members and people who desired to become members. It was a matter of peculiar interest to the Institute that the standing conferred on members of the Institute should be maintained. From the defendant's note-heading he should have been led to the belief that it was the note-heading of a member of the Institute. Of course, they had 5,000 members, and he did not pretend to know the names of all of them.

In cross-examination, witness said that he was not a Chartered Accountant; he was a barrister by profession.

Defendant: I presume you are really the Institute of Chartered Accountants?—No.

Are you aware that there is an impression abroad that you really are the Institute of Chartered Accountants?—I am afraid I cannot say that.

There is a popular delusion?—There are lots of delusions.

Did you go into the facts which led up to my bankruptcy? —The papers came through my hands.

You are aware that the claim of the petitioning creditor was for costs incurred in an action which I took as trustee under a deed of assignment?—That is your statement.

The Judge (to defendant): You admit you were made a bankrupt and have been excluded.

Defendant explained that he fought the case on a point of principle, and claimed that the Institute should have supported him.

"Do you think," said the defendant to witness, "that because I fought a case on a point of principle which is claimed as a credit to myself and a credit to the profession to have fought, you should bring an action like this against me, throwing mud at my *bona fides?*"

Witness: I think it is most important the public should not be led to think you are under the jurisdiction and control of the Institute.

Defendant: Thank you.

Witness was asked if he claimed for the members of the Institute of Chartered Accountants a high standard of general education, and replied, "I do."

Defendant: Do you really seriously make that claim?

Witness: Yes.

Defendant: What do you call a high standard of general education?

Witness said he could not answer a general question like that.

Defendant: How is it, if you are so keen on the education of the members, that you admit so many accountants who have neither education nor have they passed an examination?

Witness: I should say we have not admitted a man to membership without examination since the year 1902.

Defendant: You admit you have admitted a very large number without examination?

Witness: No.

Defendant: Have you any doubts as to my *bona fides* in my business?

Witness said he knew nothing about the defendant's business.

Defendant: You knew the prosecution of this action would lead to my financial ruin?

Witness: I am not interested in your finances at all. I am only interested, on behalf of the members of the Institute, in seeing that people are not misdescribed before the public as being Chartered Accountants.

Defendant: Are you aware I made all possible overtures to settle this action?

Witness said he had heard suggestions.

Defendant explained that he offered to alter his letter head to "late member of the Institute of Chartered Accountants," and he alleged that the Institute rejected his offer with disdain. He complained of the delay in bringing the action, and said he had suffered for thirty months in having "this villainous action" hanging over his head.

Witness stated that one reason for the delay in the action was that their solicitor died. He added that he was there to deny the suggestion that the defendant was connected with the Institute. The defendant was not under their jurisdiction.

Defendant: I certainly am not.

In reply to further questions witness admitted there was no necessity for any man who passed the Final Examination to become a Chartered Accountant.

Questioned by the Judge, witness said that he did not propose to call any evidence. He could not bring thousands of witnesses who had not been misled.

"Have I any case to answer?" asked defendant.

His Lordship: You have. I have to decide the case according to the evidence.

Defendant then went into the box, and said, when the plaintiff Institute excluded him from membership he had to think of some formula which would allow him to show the public he was a properly qualified accountant, notwithstanding any decision the Institute might have come to. The only way he could show that was by using the honours certificate. If he had stated it in any other words the plaintiffs would have had just cause of complaint. He carefully thought of the formula, and the formula he used was absolutely the truth, the whole truth, and nothing but the truth.

The qualification was stated exactly as any other man in any other profession stated his exact qualification. His letter-head was sufficient evidence he was not a Chartered Accountant, and he claimed this action could not possibly succeed. The plaintiffs, he said, were a body of undoubted position, but, personally, he cursed the day he ever heard their name.

In cross-examination, defendant said that he wished to have no connection with the Institute in any way.

Mr. Maugham: Then is it your intention to give up your note heading?

Defendant: It is not.

Proceeding, Mr. Hardwick asked for a decision in his favour, and for his full costs.

The Judge suggested that a very slight alteration in the letter-head would remove any possibility of doubt.

Mr. Maugham submitted that the plaintiffs had established their case.

His Lordship, giving judgment, said the class of business which the defendant was willing to undertake involved communications between him and persons who were not *au fait* with the etiquette of the profession, and who were likely to attach much greater importance to such a description as Chartered Accountant or any reference to the Institute of Chartered Accountants than persons who were more fully acquainted with the practice of the members of the Institute might be prepared to attach, seeing the words used on the letter paper. It was undoubtedly a fact that the defendant was entitled to such benefit as might accrue to him in his practice from the fact that he was a man of ability, and that he obtained honours in the Final Examination. It was equally true. that he was not entitled, even in giving that information, so to give it as to raise any presumption that he had any continuing connection with the Institute. He was bound to hold that the plaintiffs were entitled to restrain the form used by the defendant of communicating his attainments to his clients, and he proposed to grant the injunction asked for, and he must order defendant to pay the costs of the action, which he (the Judge) regretted, because the case might have been settled with a little reasonableness.

Defendant gave notice of appeal, and said he would go to the House of Lords, if necessary.

RESERVE FUND ACCOUNTS AND RESERVE ACCOUNTS: THEIR FUNCTIONS AND MEANING.

By Hugh MacEachran, of MacDonald-Cooper, Ltd., Calgary.

OUTSIDE the ranks of professional accountants there is considerable confusion regarding the relative legal status and functions of reserve fund accounts and reserve accounts. In appraising the credit value of a balance sheet, especially where large amounts are involved, there is nothing of more importance to a credit manager than a clear perception of the theoretical evolution and the practical application of these accounts.

The difference between a reserve fund and a reserve account is fundamental. They are things quite apart in purpose and meaning.

A reserve fund is undistributed net profits, whereas a reserve account is a charge against profit and loss account made before net profits can be ascertained. A reserve account can, therefore, come into existence irrespective of actual net profit, but without the latter a reserve fund cannot exist.

Industrial corporations operate sinking funds for two purposes—either to conveniently replace wasting assets or to liquidate some floating liability. In the event of the fund being used for replacement, then the provision is a charge against revenue. If the purpose is to provide funds to liquidate bonds, loans or mortgages, then the sums set aside to create and augment the sinking fund are a charge against net profits. Generally, the money that is appropriated is invested in some independent security, and thus constitutes an asset, appearing as such on the balance sheet.

The liability against this asset, and which guards it for the purpose intended, is the sinking fund reserve account. The latter account, of course, appears on the liability side of the balance sheet.

It is absolutely impossible to create a sinking fund account and show clearly the source of the same without opening a reserve account, and to call this reserve account sinking fund reserve is, as has already been stated, to provide an effectual barrier against any misuse of the money, besides demonstrating that the sinking fund is not a misleading title for an account accumulated from a realization of assets to provide resources which should be provided for from revenue or net profits. In poviding for a sinking fund, the existing circumstances regulate the necessity for creating a liability account. It has already been shown that a sinking fund accumulated by an industrial corporation must either be a charge against revenue or net profits, so that under such conditions the creation of a liability account is essential, otherwise the source of the accumulation is obscure. Furthermore, in circumstances where the financial provision is made for depreciation or replacement, the absence of a reserve account is a cardinal error.

If the fund is a charge against net profit, the creation of a liability is not absolutely imperative, provided the general reserve fund equals or exceeds the sinking fund. It is wise, however, to consider two points connected with reserve fund accounts and sinking fund accounts. The points are these: It is a general inference that a reserve fund has no restrictive provisions connected with it, that it simply and solely represents so much undivided profits retained in the business to remain there as increased capital, or perchance to be distributed in part or wholly as dividends. It is also obvious that the appearance of a reserve fund account indicates a corresponding increase in the value of assets.

Take now the interpretation of a sinking fund account. The title suggests provision for some maturing liability other than a capital liability. The public interpretation of the account runs along similar lines. Applying the foregoing analysis to a balance sheet where on the asset side there appears a sinking fund account, and on the liability side a reserve fund account without restrictions, it is apparent that the whole position is misleading and dangerous, more especially in connection with corporations where shareholders may be pressing for returns on their investment, and the reserve fund just an insignificant amount larger than the sinking fund account. The opportunity to direct the unrestricted reserve fund account into a wrong channel instead of keeping it earmarked to protect the sinking fund account is easily seen. Should the reserve fund be reduced to any amount less than the sinking fund account, then to the amount of this reduction the later account is being provided for from capital. Such conditions are absolutely wrong, besides violating the fundamental principles of financial stability. Under any circumstances, therefore, it is prudent to open a sinking fund reserve account for internal protection, as well as a guarantee to the public that the capital of a concern is not being subjected to a financial blood transmission process in order to provide a so-called sinking fund account.

In municipalities the specific amount set aside each year for the redemption of mortgages, bonded indebtedness and working capital is provided for by tax levy. Appropriations are made in each case according to estimates based upon previous requirements, and the tax levy is arranged so as to cover all the anticipated expenditure. The appropriation mentioned above has absolutely nothing to do with the earnings of the utilities operated by the municipality, in which circumstances it is not necessary to open a sinking fund reserve account. The appropriation for the sinking fund accounts may be debited direct to sinking fund account and cash credited, as the money received from taxes is invested or handed to a trustee for the benefit of the above-mentioned account.

If a liability account is opened against a sinking fund (investment) account, the latter to be used in replacing a wasting asset, then when the wasting asset has been cleared off the books, the liability account also disappears. The proof of this can be reasoned as follows: When funds were required to replace the wasting asset, the money was obtained from the sinking fund (investment) account which had been realized. Assume now that the asset being replaced is a building. We would, therefore, with the cash received from the realization of the sinking fund (investment) account proceed to erect a new building and use up all the money provided for such purpose. Now the liability account in the books against the sinking fund was simply a sentinel guarding the sinking fund, so that it could be used only to erect a new building. This work has been accomplished, and there is now on the books two nominal accounts, one a liability known as sinking fund reserve, and the other an asset representing the former value of the old building. The sentinel's work as a liability is finished, however, and the old building as an asset has now no value. Therefore, it is clear that these two superfluous accounts automatically cancel each other.

But the circumstances are entirely different when the sinking fund is to provide money to liquidate a loan or meet a maturing mortgage. The money in this case has been accumulated from actual net profits, so that when the liability has been paid off, the same profits still remain in the business, either in the form of increased value of assets or reduced liabilities. Consequently, the sinking fund reserve account should be transferred to reserve fund, thereby reassuming its original identity, undivided profits.

By reason of its involved technical nature, and as a matter of interest, it may not be unappropriate to give the book operations incident to the evolving, carrying and disposition of a sinking fund reserve account created for the purpose of liquidating a mortgage indebtedness. The following entries may be taken as examples:—

(1) Profit and loss account .... Dr.
To sinking fund reserve account .... Cr.
Appropriation from profit and loss account to form sinking fund reserve.

(2) Sinking fund investment account .... Dr.
To cash .... Cr.
Investment of sinking fund provisions.

(3) Cash .... Dr.
To sinking fund reserve account .... Cr.
Interest earned on investment.

(4) Sinking fund investment account .... Dr.
To cash .... Cr.
Investment of above interest.

(5) Cash .... Dr.
To sinking fund investment account .... Cr.
Realization of investment.

(6) Mortgage account .... Dr.
To cash .... Cr.
Payment of mortgage maturing this date.

(7) Sinking fund reserve account................. Dr.
To reserve fund account .... Cr.
Transferred to reserve fund account.

—From The Credit Men's Journal.

FURTHER CONCURRENT INSURANCE.

The meaning of "Further Concurrent Insurance" is as follows:—

"Supposing it is necessary to insure a stock which at cost value amounts to ten thousand dollars; insurance companies will allow policies to be issued up to 80 or 90 per cent. of the value of the stock. If it is decided on such a stock to insure up to 80 per cent. of its value, this would mean that insurance up to eight thousand dollars would be carried. It might be necessary to issue three or four policies in different companies, because insurance companies do not care to put all of their 'eggs in one basket.' Supposing, therefore, that four companies issue policies of two thousand dollars each. It is necessary on all of these policies to have the following words inserted: "Total Concurrent Insurance permitted to 80 per cent. of the cash value without notice until required.' Please note—Where there is more than one policy issued on one risk all policies must read alike."

A FEW NOTES ON COMMON LAW TERMS.*

By Herbert Jacobs, B.A.

From "The Accountant."

I THINK possible my lecture to-night will be more useful to you than those I have formerly delivered. I am afraid I shall have to wander from subject to subject in a rather disconnected way, because I shall have to pick out those legal expressions which are generally misunderstood or misused by students. The language of lawyers is very precise, and you must be careful not to use their careful expressions loosely. To avoid that you must understand what they mean. After all, language is only the vehicle of thought, and if a word has a precise and definite meaning it conveys the thought in a precise and definite manner. This is true of all speech, but if the word has a loose and vague meaning, though it may be very appropriate in poetry, it is very bad in business. When you write poems, which I suppose you do, you leave the person who reads the poems to imagine a good deal, and to fill out your ideas with ideas of his own, but when you are writing a business letter, you want the person who receives it to understand exactly what you mean.

I will first take the expression *ultra vires*. It is a Latin expression meaning "beyond the powers of," and it is used in law with reference to acts done by corporations, owing to the fact that the powers of a corporation are more limited than those of an individual. An ordinary individual who is *sui juris*—meaning that he is entitled to act in his right—can do anything unless he is under some particular disability. Now, a corporation is a person in the eye of the law, that is, it is something distinct from the members composing it. When a lawyer speaks of a person he does not necessarily mean a living individual, he may mean what can be described as a legal entity, that is something which the law recognizes as existing although you cannot say that you hear it or touch it. A corporation can be a plaintiff, can bring an action, can have an action brought against it. A corporation is created by statute, or some special authority; the King can create corporations by granting a Royal Charter, and so on, but it has no natural powers, and it cannot exercise any powers except those with which its creator has endowed it, although some of these may be implied. When I say implied, the nature of the corporation may confer some powers on it. There are very numerous instances of *ultra vires*, and although I am only giving a short explanation, there happens to be a book of 800 pages by Mr. Brice on *ultra vires*, so that even if you understand what it means you will not know all about it. You will come across the expression in connection with limited trading companies, or unlimited companies for the matter of that. The powers of the limited company are always conferred upon it by its memorandum of association. Always look at the memorandum of association to see what a company can or cannot do, and then if the company does anything which is prohibited by, or not authorized by the memorandum of association, the act is void, and the company is not bound.

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*A lecture delivered to the members of the Chartered Accountants Students Society of London.

Trading companies have an implied power to borrow money—that is to say, it is given to them by the memorandum of association, but it is given by the fact that they are created to trade. Even the law gives them that power, but the memorandum may restrict the power to borrow, may prohibit the company from borrowing; and if the memorandum does restrict that power or provides that the company shall not borrow without the consent of A, B, or C—A being the preference shareholders, B the debenture-holders, and C someone else—then the lender cannot recover from the company, and the security given for the loan is void. I remember a case where a person lent £2,000 or £3,000 to a company and overlooked the fact that the memorandum of association said that money should not be lent without the consent of two-thirds of the holders of preference shares, and, when the bank sued for the money, the company set up the defence that they were not liable because they had no power to borrow money. Fortunately, the director who signed the mortgage happened to hold two-thirds of the preference shares, and that was held to be a sufficient consent.

The opposite of *ultra vires* is *intra vires*—"within the powers of"—and sometimes an act is said to be *ultra vires* the directors but *intra vires* the company; that is to say, the directors have not power to do the act, but the company in general meeting has. The declaration of dividend is a very common example. Dividends are usually recommended by the directors but declared by the company in general meeting, so that if the directors were to declare a dividend without calling a general meeting of the company, in most cases that would be an act *ultra vires* the directors but *intra vires* the company. But, as the company has power to declare a dividend, it might ratify the directors' act in doing it and make it good. Consequently, an act *ultra vires* the directors but *intra vires* the company may be ratified by the company in general meeting.

That brings me to the word "ratification." Now, ratification is the adoption by a person on whose behalf an act has been done without his authority by another person assuming to act as his agent. If someone pretending, or assuming, to act as your agent does an act of which you know nothing, you can, if you like, when you hear of it adopt the act and make yourself the real principal. That will cure the defective authority and make the act the act of the principal to the same extent, and with the same consequences, as if it had been originally done by him, and the situation is the same as though you had originally made the contract yourself. A principal cannot ratify a contract which was made before he came into existence. That generally happens with regard to companies. Contracts are often made with a person as trustee for a company to be formed. Persons may intend to sell their business to a company and form a company for the purpose of taking over their business. They can form the company at once and sell the business to the company—that is one way of doing it, and I think it is the best way—or, on the other hand, they can, instead of forming a company, first sell their business to a trustee for the intended company. I do not know what the advantages of that are, but the trustee agrees to buy the property and afterwards the company is formed. The company cannot then ratify the agreement, but this difficulty is overcome in practice, because the company enters into a new contract with the same effect. Really there is not much in it, because it is a mere matter of conveyancing.

The expression "ratification" is also used where a person gives validity to an act of his own which was not binding on him. I have been speaking up to the present of an act done by another person for you, but the expression is also used in connection with the ratification of a person's own acts. Supposing a contract is obtained by undue influence it can be avoided, or made void, by the person coerced, but it can be made binding when such person is absolutely free from the influence which had been exercised. An infant on becoming of age can ratify some things done before he was of full age.

Now I come to expressions which always puzzle one very much, the expressions "equitable" and "legal," which are very difficult to understand. You come across equitable execution, equitable charge, equitable mortgage, equity of redemption, and there are a great many other uses of the term with which you would not be so familiar. In a general sense, equitable means "fair," but that is not the sense in which lawyers use it. Of course, that is the underlying meaning, but lawyers now employ the expression with a much more restricted meaning. We speak of equitable titles as opposed to legal titles, equitable mortgages as opposed to legal mortgages, equitable assignments as opposed to legal assignments, and so on. The distinction is purely historical, and that, of course, makes it very difficult to give it a precise meaning. It arose from the fact that Courts of Law—the Common Law Courts—administered justice according to very strict rules, and in many cases gave no redress. The suitor had then to appeal to the King, or to his Chancellor. In course of time the Courts of Chancery or Equity exercised this remedial jurisdiction and gradually evolved its particular rules, which are now pretty well as strict as the common law rules.

Let me give you an illustration. Take a mortgage in which the mortgagor—that is, the one who makes the mortgage—actually conveys the land to the mortgagee, makes him owner of it. That is a legal mortgage, because a Court of Common Law will recognize the mortgagee as owner of the land. But supposing the mortgagor has only deposited the deed to secure a debt, a thing done every day with bankers, a Common Law Court would recognize no title in the mortgagee, because he had no conveyance. The deposit of the deed was at common law not a mode of conveying land; but a Court of Equity would recognize and enforce the mortgagee's right and make the property available for payment of the debt, so, in such case, the mortgage would be described as equitable, and the mortgagee's title as equitable. So you see if the Courts of Common Law had happened to recognize the deposit of deeds as a good mode of transferring land, it would have been a legal mortgage, but as the Courts of Common Law did not happen to recognize it, it has become an equitable mortgage; so that when we speak of legal and equitable titles we mean nothing more than a kind of title which was previously recognized by a Court of Law or by a Court of Equity. You have to learn with respect to every kind of property what title is legal and what equitable. Of course, you can read volumes upon that.

The expression "equity of redemption" is one which, if you are a trustee in bankruptcy, you would become very familiar with, and it is explained in the same way. Supposing A. conveyed land to B. to secure £10,000, that is a legal mortgage, and suppose the land is worth £20,000, the day for payment has passed, and A. subsequently offers to pay all that is due, and asks B. to reconvey the land to him; if B. refuses, and he may like to keep land worth £20,000 when only £10,000 is due to him, A. formerly could get no remedy in a Court of Common Law—they would treat B. as owner and A.'s interest as forfeited by non-payment—but a Court of Equity would have ordered B. to reconvey the land on payment of all that was due. That is why it is called the "equity of redemption," the expression being used to indicate that you must go to a Court of Equity to enforce your right. In the case of a builder who fails you very often see that the trustee states that his assets consist mainly of equities. He means equities of redemption, but this shortening of the expression creates no ambiguity in this case. There are a great many kinds of equities, and it would not do to use the expression in a legal address unless it was clear you were talking of an equity of redemption; it might be thought you were talking of some other equity.

Let us consider the expression "debenture." This is not a technical legal term. It comes from the Latin *debentur*—"there are owing"—and the word was used many centuries ago to describe an instrument evidencing debt. There are 15th century documents extant in which the word is used. It is now in very common use with reference to securities issued by corporations, but it conveys very little information to say that a company has issued a debenture. It may be a mere acknowledgment of indebtedness under the seal of the company, in which case it might be termed a naked debenture, or a mere I O U of the company (which clubs very often issue), or it may not merely acknowledge a debt but give a charge—that is, give a security on some part or the whole of the company's property. In this case it should be described as a mortgage debenture, and it is with mortgage debentures that liquidators are mainly concerned, and with that kind frequently spoken of as a floating charge. That is a charge on a class of assets both present and future and not a charge on a specified asset or assets. You ought always to keep a clear opinion in your head as to what is meant by a floating charge. Often everything a company possesses is charged, and not only what it possesses but what is may possess. The form of words employed is usually as follows: "The company hereby charges with such payments (i.e. the payments which have been mentioned in the earlier part of the instrument) its undertaking and all its property, including its uncalled capital." That is as wide as you can have it. An individual could not give a charge of that kind. for reasons which I will not discuss now, but mainly because the Bills of Sale Acts make it impossible. Such a charge is a great advantage both to the company and its creditor. Supposing a specified asset or assets only are charged, the company, of course, cannot sell them, otherwise the security would be destroyed; but although under a floating charge the stock-in-trade is charged it is contemplated that the company shall carry on business in the ordinary way, and this involves selling the assets, which are subject to the charge. The reason why debenture-holders are willing to permit this is that the charge will fasten on the equivalent received by the company for its sales on the cash at the bank, or any goods purchased with such cash. If, therefore, trading is carried on at a profit, or without loss, the charge will not diminish in value, and if the company makes no default in the payment of principal or interest, and does nothing to jeopardize the security, the debenture-holder cannot interfere with the trading of the company. If, however, an event happens which entitles the debenture-holder to intervene, and the kind of event is often specified in the debenture itself, he may appoint a receiver and stop the company dealing with the assets. His charge then crystallizes and becomes a fixed or specific charge on the assets existing at the date of the intervention. You will understand that the charge floats over the assets as they change from day to day, and remains dormant so long as the company is not in default or the security in jeopardy. I may also add that a floating charge is an equitable charge, because it contains no assignment of the debts, no delivery of the goods or other transfer of property which would formerly have been recognized by a Court of Law. That is why a debenture given by way of floating charge is generally spoken of as an equitable charge.

Now I come to a word which you will more or less understand—"execution." It is the appropriate word to describe the enforcement of a judgment. It would obviously be idle for a Court to pronounce a judgment ordering a person to pay money unless it could compel obedience—within limits, of course. Very often a judgment is voluntarily complied with. You have your fight in the Courts, judgment goes against you; you are ordered to pay £100, and you pay it. In that case, of course, no execution is necessary. The old Common Law Courts enforced their judgment by various writs addressed to the sheriff, varying according to the nature of the property and the circumstances of the case. That is to say, the power of the sheriff was limited by the particular writ he was ordered to execute. The commonest writ, and one still in use, is the writ of *fieri facias*, commonly known as the writ of "fi fa." It is so called because it was originally in Latin and commenced with the words *fieri facias*—"you shall cause to be levied." The writ is now in English, and by it the Crown commands the sheriff to seize the goods or chattels of the judgment debtor in his bailiwick—bailiwick simply meaning the district over which the sheriff has jurisdiction—to sell them, and after paying the cost of the levy, to apply the balance in payment, or part payment of the judgment debt. Sometimes the common law writ was ineffective, because the sheriff could not get the debtor's property under it. Thus, supposing the debtor had land subject to a mortgage; the equity of redemption might be very valuable, but the sheriff could not take it under his writ or any writ the Common Law Courts knew of. That was one of the cases where the Court of Chancery came to the rescue and appointed a receiver of the rents and profits. This method is known as equitable execution simply because historically it was a method invented and put in force by the Courts of Chancery. It is another illustration of the meaning of that expression.

Somewhat similar to execution is the landlord's right to levy a distress for rent. Rating and taxing authorities may also distrain, but you will be chiefly concerned with the landlord. The landlord's right is an ancient common law privilege by virtue of which he can seize and sell the goods on his tenant's premises to pay the rent. It differs essentially from execution, because the creditor takes the remedy into his own hands and does not need the intervention of a public officer, and he need not get a judgment. If he does get a judgment he loses his right to distrain. The landlord is not, like an execution creditor, limited to goods which belong to the tenant; he could formerly take, with some exceptions, whatever he found on the premises, but recent legislation has created a great many exceptions. In 1870 the Legislature protected the lodger's goods, and in 1908 other kinds of goods, but if you leave your portmanteau at a friend's house and the landlord distrains for rent he can take your portmanteau. Even in bankruptcy the landlord's right to distrain is not taken away; it is only cut down—he can only distrain for six months' arrears, and in a winding-up cannot usually distrain without the leave of the Court. It is impossible to see why, excepting that the reason is probably historical, because there cannot be any difference in principle between a winding-up in the case of a company and a similar situation in bankruptcy where the tenant is an individual. I need not say that if a landlord distrains wrongfully he may have to pay heavy damages. The Courts require such an exceptional right to be used with extreme care.

While talking of landlord and tenant I should like to notice a few terms used in connection with this relationship. "Lease" is a very common expression; it means a conveyance by which an owner of land transfers the exclusive possession for a period to another, generally receiving rent. The person who lets the land is called the landlord or lessor, the person to whom it is let is called the tenant or lessee. The expression "lease" is popularly used to denote an instrument under seal, and even three years' agreements are not considered to be leases, but the word does not in law import a written instrument. When a lease terminates, the landlord is entitled to resume full possession, and this right is called the landlord's reversion. The period of time for which a lease is granted is called the "term." Sometimes a lease is put an end to by mutual consent before the expiration of the time. In such case the appropriate word to describe the transaction is "surrender." The tenant surrenders the lease, and the landlord accepts the surrender. The tenant is the surrenderee and the landlord the surrenderor—words not often used.

You often hear people speak of the covenants in a lease, such as the tenant's covenant to pay rent or to repair. A covenant is merely a promise under seal, but, in tenancy agreements, promises under hand only are frequently referred to as covenants, even by lawyers.

What is a promise under seal as distinguished from a promise under hand? When a written document containing an agreement or promise is executed it is usually signed by the promisor; then it is an instrument under his hand, but he may signify his assent to the terms of the instrument by affixing his seal, a practice which probably originated from the fact that, in olden times, many persons could not write, and used to have enormous characteristic seals and put sealing wax on the document. In modern times the sealing of a document adds to its solemnity, and still has many advantages over an ordinary contract. The actual seal of the party executing is now seldom used; its presence is indicated by a red wafer on which the promisor puts his finger and says: "I deliver this as my act and deed"—and he needn't even say that. Delivery is essential before an instrument under seal becomes operative. It must be sealed and delivered. I do not think it need be signed, but it generally is. The instrument may be handed over—that is actual delivery; or you may even retain it, saying, "I deliver this as my act and deed," and that is constructive delivery, and the instrument will still be operative. You may tear it up and burn it, but you will still be bound by it.

A written instrument, sealed and delivered to testify the agreement of the parties, is called a deed. I spoke of constructive delivery. The word "constructive" is frequently used by lawyers, and means that, although delivery has not actually taken place, the words used were equivalent in law and tantamount to actual delivery. You get constructive delivery of goods. If goods are stored in a warehouse and sold, the seller may deliver them to the buyer by handing him the key of the warehouse or giving him a delivery order. That is sufficient to pass the property.

There are two kinds of deeds—deeds poll and indentures. Deed poll denotes an instrument to which there is only one party, or several parties with the same interest. An example is a "power of attorney," appointing someone to act for you. A deed poll usually begins with the words, "Know all men by these presents," because it is addressed to unknown third persons who may be asked to act on the faith of the instrument. An indenture is a deed made between two or more parties, such as a lease, and the word "indenture" means that the top of the first page is cut in a toothed or wavy line—indented. The ancient practice was to write two copies upon one piece of parchment, and then to cut it in two in a toothed or indented line, so that the two copies could be fitted together and identified. That practice has gone out of use, but even now, if you buy a parchment from a law stationer commencing with the words, "this indenture," you will generally see wavy red lines across the top of the first page —a curious survival of the ancient practice. Leases are still generally executed in duplicate; one part signed by the lessor is handed to the lessee, and the other part signed by the lessee is handed to the lessor. The part executed by the lessor is called the lease, and the part executed by the lessee is called the counterpart. They are both of the same legal efficiency.

You probably all know that an affidavit is a written statement sworn before a person authorized to administer an oath, such as a Commissioner for Oaths. A great deal of evidence in Court is given by affidavit instead of *vivâ voce*, especially in the Chancery Courts. But you probably do not distinguish between an affidavit and a statutory declaration. The latter means a solemn declaration in writing made before a person authorized to administer an oath; it is made by virtue of "The Statutory Declarations Act of 1835," which was passed to suppress voluntary and extra-judicial oaths and affidavits. For some reason which I cannot fathom the Legislature disapproved of people making affidavits unless on some matter before the Court, but it was necessary to make very solemn statements with regard to conveyance of property and other things, and the statutory declaration was substituted. A false declaration is punishable as a misdemeanor. It is frequently used between private persons to verify the execution of deeds, and so on. Supposing land is being conveyed, and one of the documents of title is a deed purporting to be signed by John Smith. The purchaser may say: "I do not know John Smith; can you prove it to me?" He says, "No; I can only prove it by giving you a statutory declaration from Thomas Smith, John Smith being dead," and perhaps the purchaser will take it if Thomas Smith is a respectable man. In bankruptcy debts are proved by affidavit, because it is a matter before the Court, and that is why it is called a proof of debt. Under the Deeds of Arrangement Act the Court does not intervene unless some proceedings are taken to administer the trusts of the deed, and, therefore, the trustee files a statutory declaration of the assents of creditors.

There are three expressions which may be taken together—act of bankruptcy, bankruptcy act, and bankruptcy notice. These are curiously confused. Act of bankruptcy is something done or suffered by a debtor which renders him liable to be adjudicated a bankrupt. It points either to insolvency or to conduct which renders it undesirable that he should remain in control of his affairs. All the acts of bankruptcy are statutory; that is, they are all precisely defined by Act of Parliament. A debtor commits an act of bankruptcy; he does not commit a bankruptcy act. The Legislature passes a bankruptcy Act. A bankruptcy notice is a document issued by the Court on the application of a creditor, calling upon a debtor to pay a judgment debt within seven days. If he does not comply, he thereby commits an act of bankruptcy, and the creditor, if his debt is sufficient, can present a petition. I have known bankruptcy notice defined by students as a notice published in the "London Gazette," advertising, receiving orders, dividends, etc. I cannot say that it is very inaccurate; it is a popular and not a technical use of the expression.

Bankruptcy proceedings are commenced by filing a document, which is called a petition, which prays the Court to make a receiving order. The creditor who applies is called the petitioning creditor. The person against whom such a petition is filed is called the debtor, and even if a receiving order is made against him, he still ought to be called a debtor. This is rather refined, but it is really quite wrong to speak of a person against whom a receiving order only has been made as a bankrupt. It is not proper to describe him as a bankrupt until an order of adjudication is made. His status is very different, so you are always liable to create a little confusion if you are loose in describing a person who has not yet been adjudged a bankrupt as a bankrupt.

I will finish by noticing a large number of related legal terms, one set ending in "or" and the other "ee." Generally speaking, the first set is used for those who do an act, and the second set those for or to whom something is done or given. The lessor is one who grants a lease, a lessee is one to whom the lease is granted; so grantor and grantee, covenantor and covenantee, are correlative. With regard to assignor and assignee, the word "assign" is used to denote the transfer of leases and other property. You will know at once now who transfers and to whom the transfer is made. Mortgagor and mortgagee denote the parties to a mortgage.

Pledgor and pledgee are the parties to a pledge, pawnor and pawnee denote the pawnbroker and the person who deposits a pledge. You may speak of seller and buyer, or, if you want to be more technical, you would say vendor and vendee. Then there is payor and payee, the latter word being used especially in the case of a person to whom a bill or cheque or note is made payable. If you draw a cheque, "pay Thomas Smith," he is the payee. Drawer and drawee are used with regard to bills, the drawee being the person on whom it is drawn. The drawee of a cheque is the banker on whom it is drawn. Bailor and bailee —a person who entrusts goods to another for a specific purpose is called a bailor, and the bailee is the person to whom they are entrusted. There are seven kinds of bailment. You deliver goods to a carrier; he is the bailee of the goods. He is a bailee for reward, and his liability is higher than that of a gratuitous bailee, who makes no charge. If you lend your motor car to a friend, he is a gratuitous bailee. Consignor and consignee are really commercial expressions, but very much used by lawyers. Creditor and debtor are correlative expressions, but the word "debtee" is English, and means the person to whom the debt is owed. I do not know if it was much used in the past; I have never heard it actually employed, but I came across it the other day in an old report. Sometimes the correlative words ending in "ee" are not used, such as settlee as opposed to settlor. The person who takes the benefit of a settlement is called the beneficiary. Of course, there are a great many more expressions that require elucidation, but I have said enough to start with.

USE AND OCCUPANCY INSURANCE.

Considerable difference of opinion exists, even amongst insurance companies, as to what actually is embraced under "use and occupancy," says C. A. Macmorran in a recent article in the Vancouver "Sun," some contending that the term means profit, and others asserting that it means net income. "But in any event, the intention is to reimburse the assured for the loss of money he does not receive while his plant is inoperative, and the actual cover is a matter to be set forth in individual contracts between the insurance company and its assured. If the policy covers net income, then the basis of settlement of any loss must be what the assured would have received (his receipts from sales, less the cost of manufacture) if his plant had not been rendered inoperative. If the contract covers profit, that profit would not commence until fixed charges had been met, including taxes, interest on mortgages, interest on capital invested in any portion of the plant which the assured is unable to operate, salaries and wages of employees under contract, or necessary to be retained in order to maintain organization and general maintenance charges of every description."

PARTNERSHIP OR COMPANY: THE ADVANTAGES OF EACH.

SYSTEM" gives the following answer to the question, "Should two persons planning association in business form a partnership or a corporation?" The best answer is to point out the relative advantage on each form of association. The points in favor of a partnership follow:—

1. Flexibility.—Assuming friendly relations between the partners, action can be taken more smoothly and less formally.

2. Personal Control.—No partner can, without consent, transfer his interests to an outsider without dissolving the firm, while the restraints possible on the alienation of stock are often held void.

3. Relationship.—The association of partners is more apt to be intimate and friendly than in a corporation.

4. Taxation.—Corporate taxes in many States make a partnership more advantageous.

5. Expense.—While not great, an incorporation fee must be paid, frequently based on capitalization.

6. Supervision.—Partnerships, outside of fields like banking, are not subject to inspections as are corporations.

Corporations, however, have many points in their favor. Here are a few:—

1. Legal Entity.—A corporation may sue and be sued in its own name, frequently an important right.

2. Continuity.—A corporation continues during its corporate life; a partnership is dissolved by a partner's death or transfer of his interest to an outsider.

3. Transfer.—One can dispose of one's interest in a corporation readily, an impossibility under partnership except in the case of joint stock companies, prevalent in England, but practically unknown in America.

4. Financing.—The corporate plan usually facilitates obtaining a considerable amount of capital.

5. Limited Liability.—A stockholder is liable for the subscription price of his stock if not paid up; in exceptional cases, such as national banks, liability double par value of the stock is imposed; but even this liability is not unlimited, as in the case of a partnership, in which both the firm's and private assets are liable to be absorbed for the benefit of creditors.

6. Liquidity of Assets.—In a partnership, title is in the partners jointly; a corporation has title in itself. In disposing of partnership property a bill in equity for partition must often be filed; those in control of a corporation by that fact control disposition of the property—a particularly important fact in winding up a business.

GERMAN-AMERICANS AND THEIR DUTIES.

District Court Judge, in Sentencing a Lutheran Pastor under Espionage Act, Defines what is Expected of Them.

IN sentencing the Rev. John Fontana, pastor of the Evangelical Lutheran Church, of New Salem, to three years in the federal prison at Leavenworth, Kan., on a charge of violating the Espionage Act of 1917, Judge Charles F. Amidon, of the United States District Court, delivered the following charge, in which he defined what is expected of German-Americans who are living in the United States.

Having overruled the motions of the defence, Judge Amidon then delivered his charge to the prisoner, which was, in part, as follows:—

"One clause of this oath (the oath of naturalization) may have slipped your memory. It is found at the beginning and the end of the oath of allegiance. You renounced and abjured allegiance to Germany and the Emperor of Germany, and promised you would bear true faith to the United States. I don't think you have. You have cherished everything German and stifled everything American. You have prayed, and preached, and sung in German. Your body has been in America, but your life has been in Germany. If you were set down in Prussia to-day you would be in complete harmony with your environment.

"You have influenced others under your ministry to do the same thing. A good many Germans have been before me during the last month. They have lived in this country like yourself, ten, twenty, thirty, forty years. They had to give their evidence through an interpreter, and as you looked at them, there was written all over every one of them: 'Made in Germany.' That mark stands there to-day as bright and as fresh as the inscription on a new coin.

"I do not blame you," continued the court. "I blame myself. I blame my country. We urged you to come; we welcomed you: we gave you opportunity; we gave you land; we conferred on you the diadem of American citizenship, and then we went away and left you.

"We have paid almost no attention to what you were doing, and now the world-war has thrown a powerful searchlight upon us, and we find all over the United States, Little Germanies, Little Austrias, Little Italys, Little Norways, and Little Russias.

"These people have thrown a circle around themselves, and have cherished and perpetuated everything foreign.

"The figure of my country stands beside you to-day, and it says to me, 'Don't blame this man alone—I am partly to blame. Punish him for his offence, but let him know there is a new era coming in; punish him, to teach him and the like of him, and all who have been misled by him and his like, that a change has come, and that there must be an interpretation anew of the oath of allegiance. It has been nothing in the past but a formula of words—it must, in the future, be made living characters, incorporated in the heart of every foreigner who comes to us seeking citizenship. They must begin at once, all over again, to cherish American thoughts, American history, and American ideals.'

"That means something to be done in your daily life, not simply that you will not take up arms against the United States or that you will fight for the United States if it goes to war. It means you will live for the United States, and cherish and grow an American soul. It means you will take down from the walls of your home the picture of the Kaiser and hang in its place a picture of Washington; it means you will take down your pictures of Bismarck and put in their places pictures of Lincoln. It means that you will speak the American language, sing American songs, study American history, and open your eyes through every avenue to influences of American life. It means you will begin, first of all, to learn English, the language of your country, so there will be windows and doors through which American life and American ideals may enter.

"Because the task is difficult is all the more reason why you should get about it. If half the efforts had been put forth in these foreign communities to build up America that have been put forth to perpetuate foreign life, the situation would have been entirely different. You have violated your oath of allegiance in this, that you have cherished foreignness and have tried to make it everlasting. That is the basic wrong of these thousands of little islands of foreignness spread over our country, that instead of trying to drive out foreign life and build up Americanism, they have striven studiously for years to stifle American life and to perpetuate foreignness.

"The object of these proceedings in this and other courts is to give notice that this must stop. I see before us another day of judgment. When we get through with this war, and our civil liberties are made safe once more on this earth, this day of judgment is coming. Foreigners and foreign institutions which have cherished foreignness, are going o be brought to the bar. There is going to be a separation of the sheep from the goats. Every institution that has been engaged in this business of making foreignness perpetual will have to cease.

"I can understand that the use of a foreign language may be necessary for a time in a church attended by foreigners, but it should be used as a temporary expedient, not as a permanent institution. No freedom of the press will protect a permanent foreign press. This temporary situation must be made as temporary as possible, not, as in the past, as near perpetual as possible.

"If it is necessary, we will cancel every certificate of naturalization in these United States. The Federal Government has power to deal with that situation, and it is going to deal with it with a firm hand."—From The Christian Science Monitor.

BALANCE SHEETS AND CREDITS.

IN the course of the public examination of a bankrupt in the Bradford Bankruptcy Court a short time since, the Official Receiver is reported to have said: "The drawing up of false Balance Sheets for presentation to banks is becoming too common a practice among people who afterwards come into the bankruptcy court." This statement, it will be observed, is similar to one still more recently made by the Official Receiver at Nottingham, to the effect that, had the accounts of a certain company been audited by professional auditors, instead of being audited by a clerk in the employment of the company, who was called upon first to prepare the accounts and then to audit them, that company might never have gone into liquidation.

The practice of employing non-professional persons to prepare Balance Sheets is to be deprecated, and there can be little doubt that all sensible persons will uphold this view. In the first place, the audit of accounts is a matter calling for a high degree of technical training, and those who possess the necessary qualifications are, in the nature of things, persons who can command a higher rate of remuneration than all but the very largest and most important business undertakings could afford to pay; accordingly, the ordinary business house must be content, instead of retaining the exclusive services of a qualified auditor, to call him in periodically, as and when the occasion arises. But apart altogether from the question of expense, there is another factor in connection with the matter which is at least equally important, and that is, that the proper discharge of an auditor's functions calls into play the critical faculty, whereas the preparation of accounts is a purely constructive matter. The man who is responsible for the preparation of accounts is by reason of that fact over-prone to assume that the accounts he has prepared are correct, and is, therefore, intellectually unfitted to audit them. Hence it is in all cases desirable that the auditor and the bookkeeper should be separate persons, whether the concern to which the accounts relate be large or small, and whether the bookkeeper be or be not fully qualified in every sense of the term.

. . . Surely bankers as a class must know that men who carry on business without having recourse to professional accountants at all are very liable to make mistakes on questions of principle that would render their accounts quite illusory as a record of results, and, therefore, quite unreliable as a basis for determining the expediency or otherwise of acceding to an application for a loan. Surely, also, they must know that the business man who thinks so little of accounts as to suppose that he can do without the aid of the professional accountant is the business man who, in these days of keen competition, is foredoomed to failure.

. . . But, however that may be, a Balance Sheet that does not bear the signature of a professional accountant is clearly an *ex parte* statement made by a non-technical man on a matter where non-technical men may easily be mistaken, even assuming them to be impartial. A few years ago it may well have been that banks were obliged to rely upon such statements, if only because the number of professional accountants in existence was so small that it was unreasonable to insist upon the professional certification of a Balance Sheet submitted by every customer applying for a loan. In these days the position is far different in every sense; perhaps most of all in the sense that banks know far less to-day than they formerly did how their customers are really circumstanced, and are, therefore, more dependent on strict accounting than they ever were before. If it be really a fact that the practice of banks lending money to traders on the strength of uncertified Balance Sheets which subsequently prove to be false is "becoming too common," the matter is certainly one that should engage the very careful attention of bankers, and also, for that matter, of bank stockholders, for there can be little doubt that the practice is one that is far more likely to drive a bank's customers into the bankruptcy court than to keep them out of it. The unsophisticated trader is not unnaturally inclined to assume that the banks know their business, and that they would not grant him a loan which his financial circumstances did not seem to justify.—Extract from an editorial in "The Accountant."

ENEMY DEBTS AND CLAIMS.

BY an Order-in-Council, dated the 11th of November, 1918, and to be published in the "Canada Gazette" of the 30th of November, 1918, a Committee has been appointed to consider the subject of debts due by persons residing or carrying on business in Canada to enemies, claims of such persons against enemies or enemy Governments, and enemy property in Canada. To facilitate the work of this Committee, and pursuant to the Consolidated Orders respecting Trading with the Enemy, 1916, and to the Proclamation of the 12th of February, 1917, concerning British property in enemy territory and claims by British subjects against enemy persons and enemy Governments, NOTICE IS HEREBY GIVEN by the Minister of Finance and Receiver-General of Canada, as the Custodian appointed by the said Consolidated Orders, and by the said Committee, that:—

1. Every person who holds or manages for or on behalf of an enemy any property, real or personal (including any rights, whether legal or equitable, in or arising out of property, real or personal), shall forthwith, by notice in writing, communicate the fact to the Custodian, and shall furnish the Custodian with such particulars thereof as the Custodian may require;

2. Every person indebted in an amount of $100 or upwards, which is due, or which, had a state of war not existed, would have been due to an enemy, shall forthwith, by notice in writing, communicate the fact to the Custodian, and shall furnish the Custodian with such particulars thereof as the Custodian may require;

3. Every person by whom, had a state of war not existed, any sum would have been payable and paid to or for the benefit of an enemy, by way of dividends, interest or share of profits in any business, incorporated or unincorporated, or by way of payment off of the whole or any part of the capital or principal of any share, debenture, debenture stock or other obligation of any company shall forthwith, if the sum, had a state of war not existed, would have been paid before the date of this Notice, and in any other case within fourteen days after the sum would have been paid, pay such sum to the Custodian, and the payment shall be accompanied by particulars in the prescribed form;

4. If before the date of this Notice any such sum as is mentioned in paragraph 3 hereof has been paid into any account with a bank, or has been paid to any other person in trust for an enemy, the person by whom the payment was made shall forthwith, by notice in writing, require the bank or person to pay the sum over to the Custodian, and shall furnish the Custodian with such par-

ticulars as aforesaid. The bank or other person shall, within one week after the receipt of the notice, comply with the requirement, and shall be exempt from all liability for having done so;

5. Every incorporated Canadian company, Dominion or Provincial, and every other incorporated company which has a share transfer or share registration office in Canada, shall forthwith, by notice in writing, communicate to the Custodian full particulars of shares, stock, debentures and debenture stock, and other obligations of the company, which are held by or for the benefit of an enemy;

6. Every person having any claim against an enemy or an enemy Government (except claims arising out of illegal warfare, which have been dealt with by a Public Notice of the 18th of November, 1918), or having or claiming any property of any description whatsoever (including documents of title to property) in enemy territory or held by an enemy, or any interest in such property, is requested to furnish written particulars of such claim or property or interest to the Custodian;

7. Every person, including especially every solicitor, notary, curator, administrator, executor, assessor, tax gatherer, broker and real estate or other agent, who knows or has reason to suspect that any property of any description whatsoever (including documents of title to property) in Canada is owned by, or held or managed for or on behalf of, or is subject to any interest therein or claim thereto of an enemy or an enemy Government, is requested forthwith to communicate all the facts within his knowledge and all the grounds of such suspicion to the Custodian;

8. Any person who fails to comply with paragraphs 1, 2, 3, 4 and 5 of this Notice is guilty of an offence against the said Consolidated Orders and liable to the penalties prescribed thereby;

9. In this Notice:—

"Person" includes both individual persons, and also trustees, executors, administrators and bodies of persons, incorporated and unincorporated, such as companies, municipal authorities, firms and clubs;

"Enemy territory" means the territory of a State or Sovereign at war with His Majesty (including the Colonies and Dependencies thereof) as such territory stood on 1st of August, 1914;

"Enemy" means a person (as defined in this Notice) of whatever nationality, who resides or carries on business within enemy territory; and also, in paragraphs 2, 3 and 4 hereof, a person resident or carrying on business elsewhere (except in territory occupied by an enemy State or Sovereign), with whom dealing has at any time since the 1st of August, 1914, been prohibited by any Statute or Proclamation in force in Canada;

10. A large number of persons have already furnished to the Custodian the information called for by this Notice, but such persons may, if they so desire, furnish an amended statement.

The forms prescribed for furnishing the information called for by this Notice may be obtained upon application to James R. Forsyth, Department of Finance, Ottawa. The person applying should state under which paragraph of this Notice the information to be furnished by him falls.

Ottawa, 25th November, 1918.

JAMES R. FORSYTH,
For the Custodian and for the
Enemy Debts Committee.

FARM STATEMENTS.

GOOD crops and high prices for farm produce of all kinds, especially in Eastern Canada, this year are bringing the farmers within the plutocratic class that has to pay the Federal income tax. Hitherto the farmers as a class have pretty well escaped all special war taxation, although, save for the labor problem, farming is now an envied industry to the ordinary city man.

The Finance Department believes that there are tens of thousands of farmers in Canada who netted more than $3,000 from their farms last year, and that their profits this year will be even higher. Consequently, the income tax forms have been sent out to farmers generally, asking for detailed statements of gross incomes and operating expenses. It may be true that only a comparatively small percentage of the forms may be filled in with all the details required, but if the farmers comply they will at least get themselves into an unaccustomed and salutary method of profit and loss accounting which may have far-reaching results.

Income Classification.

The department is asking each farmer to specify gross income under thirty-nine detailed heads. These include the amounts received for each kind of grain sold, each kind of poultry, each kind of live stock, honey, eggs, butter, milk, etc. Also the amounts received from rents, loans, investments, road work, wood, the value of produce traded at stores for merchandise, and the value of all produce and products consumed on the farm, such as butter, milk, beef, etc.

Items of Expense.

Under the head of expenses nineteen different items are to be filled in. These include amounts paid for feed, seed, fertilizer, binder twine, hired help, repairs to machinery, repairs to fences and farm buildings, thrashing, rent, insurance, taxes, etc.; also amounts set down for depreciation of farm machinery, interest paid on mortgage, and several other items, making the whole audit accurate and complete.

Beneficial Effects.

It will be seen that to carry out the request of the department the farmers of Canada will have to start a fairly comprehensive system of bookkeeping, involving daily entries. The results should be both illuminative and beneficial. Incidentally, it may be noted that the annual report now required from all business firms with a capital investment of $25,000 or more, showing detailed profit and loss statement for the year, is inducing a much more widespread system of adequate business accounting than prevailed previously. Thousands of firms have been compelled to get their business affairs down in writing as they never had done before. The department believes that, apart altogether from the Federal revenue derived, the business and income taxes will be of immense value to Canada in the way of securing better business methods generally.

TRADE PARLIAMENTS.

An explanation of the Whitley Report. (From a pamphlet published by the Industrial Reconstruction Council.)

Questions at Issue.

What are we to make of British industry after this war? Has the genius of our fellow-countrymen for trade and business enterprise reached its zenith, and does the war mark a stage in the decline of British trade from the proud position it occupied sixty or seventy years ago? Or, on the other hand, are there not a hundred reasons for believing that, granted certain preliminary obstacles are overcome, there are opportunities lying almost immediately ahead for the practically indefinite expansion of nearly all our industries?

The Reconstruction of Industry by Industry Itself

These questions are on every lip. But the writer who desires to think accurately on trade questions must start with three simple propositions. In the first place, almost the whole duty of the British nation after the war—Government and people alike —may be summed up in the phrase, "Political and Industrial Reconstruction." With the vast issues involved in political reconstruction this pamphlet has nothing directly to do. It is worth while to remember, however, that the task of rebuilding the political fabric of the British Empire will be greatly simplified if merchants and manufacturers, business men and working men, can reach some broad basis of agreement about social and economic reconstruction. The purely political work of our statesmen will be much easier if the industrial and trading classes shoulder the main burden of industrial reconstruction themselves. It is the work of these classes to prepare schemes, suggest policies and discuss possible lines of development, leaving to the Government and Parliament in the main the simpler task of putting their plans and ideas into final legislative form.

The Problem is Urgent.

Secondly, the business of industral reconstruction is urgent. It cannot wait. So essential is it to come to an early understanding about the main principles of industrial policy that even while the book of the war is still unfinished it is necessary to write the first few chapters in the book of peace. To be ready for peace, we must prepare during war. Unless our schemes for industrial reconstruction are well under way when peace is declared, our industrial competitors may easily steal a march on us, and a golden opportunity be lost for ever.

Industry Responsible for Its Own Development

In the third place, while industrial reconstruction will be the work of many minds, the direct contribution it is in the power of manufacturers and workpeople to make towards this great undertaking cannot be over-rated. The statesman can help the matter forward by his administrative ability, his power to see all sides of national life and to blend the valuable parts of historical tradition with the economic requirements of the new national environment. The idealist can help it forward by his dreams of a perfected industrial State. But the principal task must lie in the hands of the practical men of affairs, who have built up our great national trades, who are familiar alike with the present industrial situation and with the needs of the new industrial era on which we are entering. Each trade—that is to say, the brain and manual workers in each trade—has got a sphere of almost incalculable importance in creating the new industry of the future.

The Whitley Report.

It is because these facts have been growing on the consciousness of the country that the Whitley Report has aroused such intense interest. In the United Kingdom it has been hailed with enthusiasm in every quarter. It has many ardent supporters. It has few open or avowed enemies. In Germany, the prospect of British manufacturers adopting the principles of the Whitley Report is apparently viewed with considerable disquietude. A leading newspaper in South Germany, the "Münchner Neueste Nachrichten," recently said, in an article on the report: "The attempts made by the English to reform industry deserve consideration by us also, since in the great struggle after the war that nation will certainly come off best which carries over unimpaired from the war period into peace the ideal of work for the common good, and which takes due account not only in politics, but in the organization of industry, of the self-consciousness of the people, which has grown so immensely during the war. Without losing sight of our own special circumstances, we have every reason to follow with the greatest attention the development of the situation in England." If this is the typical attitude of our national enemies, it is worth while pressing home the moral of the Whitley Report. Although, as has been said, it has its enthusiastic supporters, every new departure must make good its case before a vast army of lukewarm Laodiceans. Mr. Bonar Law has said that we must not spread the redemption of the national debt over a long period of years, but that we must aim at its early reduction to manageable proportions. Similarly, it will be of little avail for purposes of reconstruction if we take ten years or a generation to put into practical shape the ideas underlying the Whitley Report. It must be now or never. What, then, is the great idea underlying this historic document?

SOME PRECEPTS OF PROFESSIONAL CONDUCT.

By John A. Cooper, C.P.A.

A profession is an employment requiring learning or education, a vocation in which a professed knowledge of some department of science or learning is used by its practical application to the affairs of others in advising, guiding, or teaching them, or in serving their interests or welfare in the practice of an art founded on it. Professed attainments and special knowledge as distinguished from mere skill; practical dealing with affairs as distinguished from mere study or investigation; the application of such knowledge to use for others as a vocation as distinguished from its pursuit for its own purposes.

Professional conduct necessarily implies honorable conduct, and unprofessional—dishonorable.

Public policy requires that certain occupations must be subject to legislative control, due to the special scholarly and moral qualifications required of a practitioner and the injurious consequences likely to result from a lack thereof.

The study of the sciences of higher accounting, finance and industrial economics, and the practical application of such acquired knowledge as a life career as such services may be demanded, must be regarded as the practice of a profession.

Every practitioner should aid in guarding the profession against the admission to the profession of candidates unfitted or unqualified because deficient in either education or moral stamina.

A practitioner cannot offer his services for sale nor vaunt his own abilities without violating the canons of good taste and professional ethics. No one invested with the dignity and prestige implied by such intimate relations with clients should be permitted to degrade it by mere cupidity. A wholesome regard for such dignity forbids an accountant advertising his talents or skill as a merchant does his wares.

It is undignified and unethical to advertise or practise under an actual or fictitious corporate name.

An accountant should not speak slightingly or disparagingly of his profession, nor pander to unjust prejudice on the part of the laity; and should scrupulously refrain from inciting or fostering such prejudice as a reflection upon a brother accountant.

THE INCOME WAR TAX ACT AS AMENDED.

Exemptions.

Unmarried persons and widows and widowers without dependent children are exempt up to $1,000. All other persons up to $2,000. For each dependent child, $200. Corporations and joint stock companies up to $3,000.

Unmarried Persons.

Over $1,000, up to $1,500, exempt $1,000. Tax remainder 2 per cent.

Over $1,500, up o $3,000, exempt $1,000. Tax, $500 2 per cent., remainder 4 per cent.

(On income over $3,000 unmarried persons without dependent children pay $50 more on total tax than married persons.)

Married Persons.

Over $2,000, up to $3,000, exempt $2,000. Tax remainder 2 per cent.

Over $3,000, up to $6,000, exempt $2,000. Tax, $1,000 2 per cent., remainder 4 per cent.

Incomes over $6,000 are subject to additional rates as follows:—

				Normal. Per cent.	Supertax. Per cent.	*Surtax. Per cent.
Over $	6,000	to $	10,000	4	2	5
“	10,000	to	20,000	4	5	10
“	20,000	to	30,000	4	8	10
“	30,000	to	50,000	4	10	10
“	50,000	to	75,000	4	15	10
“	75,000	to	100,000	4	20	10
“	100,000	to	200,000	4	25	15
“	200,000	to	400,000	4	30	35
“	400,000	to	600,000	4	35	35
“	600,000	to	800,000	4	40	35
“	800,000	to	1,000,000	4	45	35
“	1,000,000			4	50	35

Corporations.

Corporations and joint stock companies, no matter how created or organized, must pay 6 per cent. upon all income exceeding $3,000, but shall not be liable to pay the supertax or surtax. Corporations whose business and assets are carried on and situated entirely outside of Canada are not liable to taxation.

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*The surtax is calculated on the sum of the normal and supertax in each division.

THE BUSINESS PROFITS WAR TAX ACT AND AMENDMENTS.

Original Act, 1916.

Incorporated companies, $50,000 and over:

7 per cent. exempt.

25 per cent. on excess.

Unincorporated businesses, partnerships, individuals, etc.:

10 per cent. exempt.

25 per cent. on excess.

Payable for each and every accounting period ending after 31st December, 1914, for three years.

Amendment, 1917.

Incorporated companies, $50,000 and over:

7 per cent. exempt.

25 per cent. on excess up to 15 per cent.

50 per cent. on excess over said 15 per cent., but not exceeding 20 per cent.

75 per cent. on excess over said 20 per cent.

Unincorporated businesses, partnerships, individuals, etc.:

10 per cent. exempt.

25 per cent. on excess up to 15 per cent.

50 per cent. on excess over said 15 per cent. but not exceeding 20 per cent.

75 per cent. on excess over said 20 per cent.

Amendment, 1918.

Continues the above tax to 31st December, 1918, also.

Any business, $25,000 and under $50,000:

10 per cent. exempt.

25 per cent. on excess.

Payable for all accounting periods commencing after 31st December, 1917, but not after 31st December, 1918.

"The act applies to each and every accounting period ended since December 31st, 1914, irrespective of the date the accounting period commenced.

"The act applies to all businesses, including subsidiary companies, foreign companies, shipping goods into Canada on consignment, and the value thereof at any time during the accounting period amounts to the capital set forth, will be considered as coming within the provisions of the act.

"Cultivation and growing of nursery stock is classed as farming.

"A company incorporated in Canada whose business and assets are carried on and situated entirely outside of Canada is not subject to the provisions of the act.

"Depreciation or appreciation of securities as determined by quotations on the Stock Exchange cannot be taken into consideration when determining profits for the purpose of the act. The same principle applies to land, and so-called profits or losses on land or securities cannot be considered until the investments have been sold.

"Tax paid under this act can be considered as an expense incurred during the accounting period following that which was taxable.

"Donations to patriotic funds may be considered as an expense and not a deduction from tax payable.

"Loss incurred in one period cannot be placed against the profits of succeeding period.

"Inventories of merchandise should be taken at cost or market values if less than cost.

"Corporation life insurance cannot be considered as an expense. The amount realized from corporation life insurance is not classed as a profit.

"Profits made during an accounting period cannot, for the purpose of that period, be classed as capital.

"Insurance taken as a sinking fund for payment of a mortgage is not considered as an expense.

"Reasonable deducion will be made for salariets where no allowance has been made.

"Bonds or borrowed money cannot be classed as capital.

"Impairment of capital does not reduce the amount paid up on the capital stock of an incorporated company.

"Reserves for bad or doubtful debts or for depreciation of buildings, plant and machinery or any form of wasting assets are impaired reserves, and, therefore, cannot be classed as capital.

"With regard to 'good will,' where a trade or business has been converted into a company and shares in the company are wholly or mainly held by the person who was owner of the trade or business, no value shall be attached to those shares, so far as they are represented by 'good will' or otherwise than by material assets of the company, unless special circumstances warrant consideration. Patent and secret processes shall be deemed to be material assets."

THE
CANADIAN CHARTERED ACCOUNTANT
PUBLISHED QUARTERLY UNDER THE AUSPICES OF THE
DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

"Of the Profession; by the Profession; for the Profession."

The Publication Committee will be pleased to receive contributions on subjects of interest. Papers which may not be deemed suitable will be returned, if desired.

All communications to be addressed to "The Canadian Chartered Accountant," 518 Continental Life Building, Toronto, Ont.

SUCCESS OF VICTORY LOAN.

THE overwhelming success of Canada's Victory Loan, 1918, again evidences the loyal and patriotic spirit of our people, and enables the Minister of Finance to extend material assistance, should it be required, to the Imperial or Allied Governments in the interests of Canada's trade. The over-subscription of the Loan is an index of the sound financial condition of the country and of the ability of the people to cope with whatever situation may occur.

URGES GROUP INSURANCE.

AN important suggestion was made by President H. C. Cox at the annual meeting of the Canada Life Association that the Dominion Government should authorize group insurance. Under this system, which has been undertaken recently by a few companies in the United States, all the employees of a given corporation are insured without medical examination, and without cost to themselves, the corporation paying the premiums. This results in the insurance of many men who would not otherwise be thus benefited, and brings a steadying effect upon labor in its relation to employers.

DOMINION ASSOCIATION MEMBERS.

THE following is a copy of a resolution passed at the last meeting of the Council of the Dominion Association: "Resolved,—On motion of Mr. F. J. Wilson, seconded by Mr. W. H. A. Thompson, that the Council request the members to assist in obtaining advertising for "The Canadian Chartered Accountant."

TO YIELD $65,000,000.

THE total amount of assessments made under the Business Profits War Tax Act to date is over $58,000,000, of which over $54,000,000 have been collected. It is estimated that by the end of the present fiscal year about $65,000,000 will be realized from this Act. This is more than double the estimate made in the budget speech, in which the Act was introduced.

FOREIGN EXCHANGE.

THE establishment of a gold settlement fund of several hundred million dollars to facilitate foreign exchange transactions and eliminate the necessity of shipping quantities of gold, back and forth, between countries is under consideration by the financial advisers of the allied governments, and may be arranged at the Peace Congress. It is proposed that a half billion dollars be the maximum size of the fund at first, and that neutral countries be admitted if they choose to participate.

DUTIES OF CITIZENSHIP.

IN another part of this issue will be found the charge of a United States District Court Judge in sentencing a Lutheran minister. It is well worth reading, as showing what the attitude of the American Bench is toward citizens who violate their oath of naturalization. In Canada similar conditions prevail, but to a less extent. Now that the war is over, all hand-made citizens who have been untrue to their oaths of allegiance should be deported forthwith and refused permission to ever enter Canada again.

BANKS AND BORROWERS.

IT is advisable that banks, so far as possible, request all firms and corporations seeking accommodation to furnish, with their individual statements, a certificate by a recognized and reputable accountant that such statement has been thoroughly examined and is approved. It is further believed that such certified statement will be equally beneficial to the borrower as well as the banker that may be entertaining the making of a loan.

PROVINCIAL AND MUNICIPAL SECURITIES.

RESTRICTIONS on the issue of provincial and municipal securities have been removed by the finance minister, but industrial issues will still need his approval. During the war only absolutely necessary expenditures on public works have been allowed. With the removal of the restrictions the public authorities should promptly proceed with postponed improvements.

BUSINESS PROFITS AND INCOME PAMPHLET.

A NEW supply of the Business Profits and Income pamphlets, containing the address of Mr. Breadner, Commissioner of Taxation, and the discussion, published in the October magazine, is ready for distribution at following prices: Less than 25 copies, 15 cents each; 25 copies, $3.00; 50 copies, $5.00. Orders, accompanied by remittance, should be sent to "The Canadian Chartered Accountant," 518 Continental Life Building, Toronto.

DECIMAL COINAGE.

THE British Government have appointed a Commission to consider and report whether it is desirable to make any changes in the denominations of the currency and money system of the United Kingdom with a view to placing it on a decimal basis. Naturally, we would prefer to see Great Britain adopt our system of coinage throughout, because of its simplicity in accounting and the facility it would add to business transactions.

ONTARIO LOAN AND TRUST CORPORATIONS.

DECIDEDLY radical reforms are suggested in the tentative legislation which the Ontario Government has drawn up with reference to Trust and Loan Corporations, and which has been submitted and formally discussed with the corporations interested.

The proposed legislation is for the purpose of better protecting the investors in trust and loan corporations first, and as a protection to the corporations themselves. One of the clauses is, that no trust or loan company shall invest more than 15 per cent. of its paid in capital stock and reserve funds in any one security or corporation. Another clause prohibits a company from investing in the stocks, debentures or funds of any chartered bank or incorporated company which has not paid a six per cent. dividend on its capital stock for the previous three years.

Provision is made for the protection of guaranteed investments by providing that for every $100 of such investments accepted by a company, $115 of securities must be earmarked and set aside as definitely pledged therefor. A sworn return must be made to the registrar of insurance quarterly, showing securities earmarked.

To make it impossible for a corporation to hide its real condition, an annual statement has to be made to the registrar, and the auidtors must swear to the statement being correct, and the officers of the corporation must do the same. A copy of the statement must be delivered to every debenture holder and depositor whose deposit exceeds $100, within fifteen days after the annual meeting.

The legislation also contrives to make real estate speculation by trust and loan companies practically impossible by a clause limiting the amount of real estate and buildings a corporation may hold to 15 per cent. of the paid-up capital and reserve fund.

The bill also provided that in future the affairs of the corporation must be audited by Chartered Accountants, but on its being pointed out to the Government that such provision would be contrary to the policy and spirit which has always actuated the Institute of Chartered Accountants of Ontario, who have not asked for nor do not want exclusive legislation in their behalf, it was proposed that this clause be changed, the loan corporations to submit their nominations for auditors to a committee of their Association for approval. We understand, however, that this clause is still under consideration. A new form of report, requiring more detail than formerly, is also being prepared.

PERSONAL.

Messrs. Stirling, Rankin & Saul, Winnipeg, Man., announce the re-opening of their branch office at 208 Scott Building, Moose Jaw, Sask., with Mr. Stuart Thornton, C.A. (Edinburgh), in charge.

Messrs. Marwick, Mitchell, Peat & Co. announce the removal of their Winnipeg office to Rooms 201-204, Northern Crown Building, 232 Portage Avenue.

REVIEWS.

The Newman-Bates System of Farm Bookkeeping.—H. S. Bates, C.A., 102 Bank Street, Ottawa, publisher. Complete set, $5.00. The Newman-Bates system of farm bookkeeping has been worked out by Mr. L. H. Newman, Secretary of the Canadian Seed Growers' Association, with the assistance of Mr. Bates, a Chartered Accountant; Professor A. Leach, of the Ontario Agricultural College; Mr. J. H. Grisdale, Director of Experimental Farms; Professor J. R. Reynolds, President of Manitoba Agricultural College; Professor H. Barton, of Macdonald College, and others. It was evolved primarily to meet the requirements of the farmer upon his own farm. The system includes two main books —a cash book-journal and a year book—so ruled as to enable one to ascertain exactly how each department of his farm is progressing at all times, and to show the exact financial condition of each department and of the whole of his business at the end of his business year. The cash book-journal consists of parallel columns, so arranged that the expenses and the revenue in each department or branch of the farm are shown separately. Into this book are entered all transactions, whether they be cash or credit. The year book consists of a series of blank forms, so arranged as to enable a man of average intelligence, though he may have no training whatever in bookkeeping, to assemble at the end of the year the various items which together indicate the profits or loss in each department, and finally on the whole year's business.

WANTED.

Several members wanting to bind their magazines are short one or more of the following numbers: October, 1911; April, 1912; July, 1915. Have a look! Help them out!

CORRESPONDENCE.

The Canadian Chartered Accountant, 518 Continental Life Building, Toronto, Canada:

Gentlemen,—Referring to the address of the President of the Dominion Association of Chartered Accountants to the officers and members of said Association, published in the October, 1918, issue of "The Canadian Chartered Accountant," our attention has been drawn to that part of the address on page 94, entitled "Accountants for Imperial Government Service," in which certain derogatory remarks are made regarding this firm.

Upon reading these remarks we felt they should not be allowed to pass unanswered. We have accordingly replied to Mr. John Hyde, C.A., the gentleman who delivered the address, and enclose herewith a copy of our reply.

We shall appreciate your publishing our reply in the next issue of "The Canadian Chartered Accountant," as you will doubtless agree with us that it is the proper course to pursue.

Yours very truly,

BARROW, WADE, GUTHRIE & CO.

[COPY.]

25 Broad Street, New York, U.S.A.,
November 30, 1918.

John Hyde, Esq., President, Dominion Association of Chartered Accountants, 304 Merchants Bank Building, Montreal, Quebec, Canada.

Dear Sir,—We have had drawn to our attention your address to the officers and members of the Dominion Association of Chartered Accountants, as published in the October, 1918, issue of "The Canadian Chartered Accountant," page 94, in which you make certain derogatory remarks regarding this firm under the heading, "Accountants for Imperial Government Service."

We particularly desire to take exception to your communication to the Hon. J. C. Doherty, Acting Premier, "complaining at the apparent discourteous treatment."

We may say that in the engagement of accountants for service with the Ministry of Munitions in London no advertisements were inserted in newspapers, either in the United States or in Canada. When requested to engage accountants in the United States by the Ministry of Munitions we asked the Secretary of the American Institute of Accountants to make an official appeal to the members, notifying them of the requirements of the British

Ministry of Munitions. This appeal was given prominence in certain issues of the monthly Bulletin of the American Institute of Accountants and in the "Journal of Accountancy," an accounting magazine published in the United States. When later requested to appeal for the services of Canadian accountants we adopted a similar plan through the medium of the Dominion Association of Chartered Accountants.

So far as correspondence with applicants is concerned, we have treated all on the same basis, whether they were residents of the United States or Canada. It may be that there were for good reasons delays in replying to letters from some applicants in both countries, but we object to this being termed "apparently discourteous."

With regard to Canadian applicants, most of the experienced accountants desired higher compensation than the salary of £400 per annum, which was the limit set by the Ministry of Munitions. A number who were willing to accept the salary offered had not, in our judgment, the necessary experience in manufacturing and commercial accounting, more particularly men from Manitoba, Alberta and British Columbia.

We appreciate your efforts in behalf of Canadian accountants, but under the circumstances we feel justified in asking you to make such public announcement as will correct any erroneous impression conveyed by your remarks.

(Signed) BARROW, WADE, GUTHRIE & CO.

[COPY.]

Mr. Hyde's Reply.

Montreal, December 3rd, 1918.

Messrs. Barrow, Wade, Guthrie & Co., Broad Exchange Building, 25 Broad Street, New York City.

Dear Sirs,—I am in receipt of yours of the 30th ulto., with enclosure, which you state that you have sent to the Canadian Chartered Accountant for publication. With regard to the extract from my report which you refer to, I do not see how any objection could be taken thereto, as the wording used is merely "apparent discourteous treatment," and as the letter was written to the Hon. C. J. Doherty in June, 1918, after I had received a number of complaints from Canadian Accountants that they could not even get acknowledgments to their letters to your firm, I thought that, as President of the Dominion Association, it was my duty to take the question up with the Dominion Government to have a direct representative in Canada to secure Accountants for the Imperial

Service, if such were required. Almost two months afterwards I was again advised by the Canadian applicants that they could not get any satisfaction from your office, and on the 11th August I sent you a list of the names of the complaining parties. The explanation furnished to me by you in June was that you had been so busy that you had been unable to take into consideration the applications and deal with them, and this information reached me after I had already written to the Hon. C. J. Doherty. The reason I inserted the prefix "apparent" was, I thought there might be some explanation furnished by you, showing that the applications of the Canadian Accountants had never reached you, and had this been the reason it would have afforded a perfect answer to the complaints that had been made to me; but, on the other hand, when the explanation came forward that you had been too busy to deal with the applicants, this certainly did not cover the failure of acknowledging the letters, which could have been done by one of your clerks.

The whole of the records covering the communications bearing upon the matter of the application by Canadian Accountants are in the hands of Mr. John Parton, of Winnipeg, who is my successor as President of the Dominion Association of Chartered Accountants, and these will speak for themselves, and I consider they afford ample justification for the wording used in my report.

Yours very truly,

(Signed) JOHN HYDE.

Broad Exchange Building, 25 Broad Street,
New York, December 16, 1918.

The Canadian Chartered Accountant, 518 Continental Life Building, Toronto, Canada.

Gentlemen,—We beg to thank you for your letter of the 12th instant in regard to publishing in the January, 1919, issue of "The Canadian Chartered Accountant" our letter of November 30th addressed to Mr. John Hyde, late President of the Dominion Association of Chartered Accountants, and have the following to say in respect thereof:—

Referring to the last paragraph of your letter, in which you say that the publication of our letter of November 30th and of Mr. Hyde's reply thereto of the 3rd instant, of which we have the original, will be made unless on further consideration we think the controversy not worth while, we have felt from the beginning that the whole matter should not have been brought forward in a public manner, but, inasmuch as Mr. Hyde's address was published in "The Canadian Chartered Accountant," we do not see any objection to the publication of the correspondence resulting therefrom.

It will be noted from Mr. Hyde's letter of December 3rd that he was led to use the term, "apparent discourteous treatment," from the fact that we had not acknowledged applications from certain Canadian Accountants. In regard thereto, we submit that it is not always necessary and is not usual practice to acknowledge applications for positions which have been brought to the attention of the applicants in more or less informal public announcements.

Apart from this feature of the remarks made by Mr. Hyde in his address, there is another inference that may be drawn therefrom, and that is that we advertised in newspapers in the United States, whereas "this advertisement had not been inserted in the Canadian papers." You will observe from our letter to Mr. Hyde of November 30th that we state, "No advertisements were inserted in newspapers, either in the United States or in Canada." It is not our desire to carry on a discussion of a matter which appears so unimportant, but we object to the publication of Mr. Hyde's remarks in his address heretofore referred to.

Yours truly,

BARROW, WADE, GUTHRIE & Co.

OBITUARY.

Death came suddenly to Mr. James F. Lawson, F.C.A., Toronto, on Monday, December 23rd last, from heart failure. Mr. Lawson was senior member of the firm of Lawson, Welch & Campbell, Chartered Accountants, and was highly esteemed in the profession. Mr. Lawson, with wife and daughter attended the Dominion Association annual meeting at Montreal in September last, and many of those who had the pleasure of meeting him will be shocked to hear of his death.

The announcement of the death of Mr. S. R. Tarr, founder and editor of the "Canadian Finance," Winnipeg, after a brief illness, came as a great shock to his many friends among the accountants. Mr. Tarr was a man of large public spirit and of fine personality and will be greatly missed in business circles in the West.

THE ASSOCIATION OF ACCOUNTANTS IN MONTREAL.

(Incorporated 1880.)

F. W. Sharp, President. Robert Wilson, Jr., Secretary.

The Annual General Meeting of this Association took place on the 8th of October, 1918, at which there was a representative attendance of members. The President, Mr. Sharp, submitted the report of the Council for the year just closed. During the year one Final and one Intermediate Examination was held, at which there were 16 candidates for the Final and 11 for the Intermediate. Of these, seven succeeded in passing the Final and seven the Intermediate. The membership in the Association now numbers 82, eight new members having been admitted in October.

The Treasurer's statement showed that the finances of the Association were in good condition, the income for the year exceeding the expenditure by $413.07. The assessment for the current year was fixed at $20 per member.

The retiring Council was re-elected without change for another year, and is as follows: President, F. W. Sharp, C.A.; first Vice-President, James Hutchison, C.A.; second Vice-President, J. A. Grant, C.A.; Secretary-treasurer, R. Wilson, Jr., C.A. Council—A. B. Brodie, C.A., C. A. Hodgson, C.A., John Hyde, C.A., Eugene Trudel, C.A.

Messrs. F. W. Sharp, C.A., and James Hutchison, C.A., were appointed the representatives of this Association upon the Council of the Dominion Association for the present year.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO.

(Incorporated 1883.)

W. R. Morris, President. Arnold Morphy, Secretary.
W. J. Valleau, Registrar.

It is with much regret that we have to announce the death, after a short illness, of Mr. Jas. F. Lawson, F.C.A., an active and highly-respected member of the Institute, on December 23rd last. The late Mr. Lawson was the senior partner of the firm of Lawson, Welch & Campbell, with offices at 59 Yonge Street, Toronto.

Mr. Sholto C. Scott, a member of the Institute of the Chartered Accountants in England and Wales, now Deputy City Auditor of Toronto, was elected a member of the Institute on November 26th last.

At a meeting of the Examination Committee, held on 18th December, Mr. Arnold Morphy was unanimously re-elected chairman, and the examiners for the annual examinations, which are to be held on May 14th, 15th and 16th next, were appointed.

INSTITUTE OF CHARTERED ACCOUNTANTS OF MANITOBA.

(Incorporated 1886.)

John Parton, President. W. J. Spence, Secretary.

Lieut. Walter J. Macdonald, of the 44th Battalion, C.E.F., a member of the Institute, and formerly of the staff of Ronald Griggs & Co., has been reported wounded at the front.

The following military honors have been won recently:—

James M. Dunwoody, Lieutenant, a member of the Institute and of the staff of Riddell, Stead, Graham & Hutchison before the war, and who, when a trooper with Lord Strathcona's Horse, was, in 1915, awarded the D.C.M., has recently been granted the D.S.O.

Alexander D. McRae, Captain, a member of the staff of Ronald Griggs & Co., has been awarded the Military Cross.

Students' Society.

The Students' Society of the Manitoba Institute, whose activities have so far been restrained by the influenza epidemic, will open a series of weekly meetings in the University of Mantoba on Friday evening, January 10th, when they will be addressed by the President of the Institute, Mr. John Parton, C.A., on the subject, "Study."

Officers for 1919:—Honorary President, John Parton, C.A.; Honorary Vice-President, F. C. Gilbert, C.A.; President, R. W. Giles, C.A.; Vice-President, D. C. Whyte; Secretary-Treasurer, W. Richards.

The committee have just completed the Syllabus for the ensuing season. A series of fourteen lectures has been arranged, extending from January 10th to the middle of April, and the subjects to be discussed cover a very wide range. In addition to lectures on Accounting and Auditing by well-known members of the Institute, the Society is to have the privilege of hearing specialists in allied subjects, like Ecenomics and Insurance.

As these lectures have been arranged particularly for the benefit of students preparing for the examinations, it is hoped that all such students will show their appreciation by joining the Society and taking full advantage of the instruction provided.

The meetings of the Society will be held on Friday evenings at 8.00 o'clock in the University Arts Building, Lecture Room 11, Kennedy Street, Winnipeg, being the time and place considered most convenient to the majority of the students.

The membership of the Society is open to registered students of the Institute, the fee being $3.00, which must accompany application for membership.

Applications for membership should be sent to the Secretary-Treasurer, Mr. W. Richards, 805 Confederation Life Building, who will attend at the University Annex every Friday evening at 7.45 to enroll members.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NOVA SCOTIA.

(Incorporated 1900.)

J. R. Blackett, President. G. Wallace Dickson, Secretary.

The next Annual Meeting of this Institute takes place on the first Tuesday in February, at which meeting it is hoped many will be present. It is urged that the Nova Scotia Institute members will kindly bear this in mind and as many as possible arrange to be present. Due formal notice will be given.

The following are the officers and members of the Council now serving, all of whom retire at the Annual: J. R. Blackett, President; C. L. Torey, Vice-President; G. Wallace Dickson, Secretary-treasurer; T. Harold Johnson, E. Kaulbach, W. E. Leverman, R. L. Martin, Col. F. H. Oxley, T. L. E. Piers; H. J. Stech, Auditor.

The Nova Scotia Institute takes this opportunity of extending to the officers and members of sister Institutes all good wishes for a Happy and Prosperous New Year.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BRITISH COLUMBIA.

(Incorporated 1905.)

G. E. Winter, President. H. D. Christie, Secretary.

Through an oversight, the October number of "The Canadian Chartered Accountant" had no news item from the British Columbia Institute.

The Annual Meeting of this Institute was held on July 17th, 1918, at Vancouver, twenty-five members meeting for luncheon.

the business of the meeting being proceeded with immediately thereafter.

Reports were submitted by the Vice-President, Secretary and Treasurer covering the activities of the Institute for the past year.

The names of three members elected by the Council during the past year were submitted for confirmation, namely, Messrs. G. F. Gyles, A. L. C. Chalk and W. H. B. Nesbitt.

It was reported that at the May Examinations of the Institute ten candidates had presented themselves, five for the Intermediate and five for the Final, three being successful in the Intermediate and two in the Final.

A minimum Tariff of Fees, adopted by the Council on December 7th, 1917, was approved.

Messrs. Gordon Tansley and H. D. Christie were elected delegates to the D.A.C.A. meeting to be held in Montreal in September. These delegates were instructed, among other things, to recommend to the D.A.C.A. that reciprocal arrangements be entered into with the Australasian Corporation of Public Accountants.

The total membership at June 30th, 1918, was 101, of whom 66 members resided within this province, 9 elsewhere in Canada, and 26 were of foreign residence. Twenty-two members were reported as on active service, as well as some 35 articled students and assistants.

The officers elected at a subsequent meeting of the Council were George E. Winter, President, and H. H. Christie, Secretary-treasurer.

The financial statement referred to special grants and donations, amounting to $311, that had been made during the year, which, together with former donations to war funds, brought the total given by this Institute to $1,311.

. The name of the Insitute of Chartered Accountants of New Brunswick has been added to the list of registered societies in accordance with By-law No. 57.

Since the Annual Meeting in July three new members have been admitted by the Council, namely, Messrs. Frederick Field, T. Noel Bland and W. R. Carmichael.

An abbreviated Year Book is being published, and a copy may be secured by anyone upon application to the Secretary.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SASKATCHEWAN.

(Incorporated 1908.)

F. J. Wilson, President. Thomas Lax, Secretary.

Owing to the prevailing epidemic the meeting of the Council was postponed until December 21st. This accounts for delay in some of the matters in which members are interested. The committee appointed to revise the Tariff of Fees reported that the Act of Incorporation contained no provision for approval of the tariff by the Lieutenant-Governor-in-Council. A new Tariff was submited and approved by the Council in the following form: Principal, $5 per hour; Chartered Accountant, $21 per day; senior clerks, $14 per day; other, $7 per day. (Day of seven hours.) The complete Tariff will be printed and sent to members in the near future.

The Library Committee are making plans for the winter's work, and expect to add a number of new books. Scholarships or prizes will be awarded as per conditions herewith:—

1. That the sum of $65 be expended in prizes in 1919 as follows: $40 in scholarships or prizes for the Intermediate Examination, $25 for the Primary Examination.

2. That the first prize for the Intermediate Examination be $25 and the second $15.

3. That the first prize for the Primary Examination be $15 and the second $10.

4. That the prizes be awarded to the candidates passing their examinations and taking first and second place, respectively, in April, 1919.

5. That the amounts of the prizes be not paid in cash, but in books on accounting, auditing and kindred subjects, or to be applied on Examination or tuition fees.

6. That the prizes be awarded by the President and the Secretary of the Institute upon receipt of a report of the results of the examinations furnished by the Secretary of the Board of Examiners.

7. That the Secretary send out a circular letter to all institutions which would be interested in preparing candidates for the Primary Examination.

The President submitted an interim report on the proceedings of the Convention. A full report will be made to the general meeting.

It is with regret we have to announce the deaths of two of our members, Mr. W. F. Heal and Mr. Rowland Reid. They both succumbed to pneumonia, following influenza. Mr. Heal was a member of the Institute from 1915, and was held in high esteem by all the members who knew him. The following is an extract from the Moose Jaw newspaper:—

"Pneumonia claimed a prominent citizen when W. F. Heal, accountant, member of Hodge & Heal, and ex-commissioner of the city, who passed away at his residence, 1084 Redland Avenue.

"Mr. Heal was a native of London, England, being born there on the 10th of July, 1881. He came to Canada in 1904, and to Moose Jaw in 1909. An expert accountant with G. K. Smith, and in July, 1909, entered the service of the city as accountant and bookkeeper. In the following year he was appointed city clerk and treasurer, relinquishing the latter duties a year later. When the commission form of government was instituted in June, 1912, Mr. Heal was made commissioner, with George D. Mackie as engineer commissioner.

"In March, 1916, Mr. Heal resigned his city appointment to enter into partnership with William E. Hodge, and had been associated with him since then.

"The late Mr. Heal was recognized as an authority in accountancy, and left his mark in the administration at the City Hall. He will be principally remembered provincially as one of the pioneers of the Saskatchewan Municipalities Association, of which he was long secretary.

"A man of very even temperament, many friendships, unostentatious, assiduous in business. Among the large number he had to meet in city affairs he held a warm place, for he was always the same, sure in his methods, calm in his dealing and the essence of courtesy."

Mr. Reid had only been admitted to the Institute in July of this year. He was employed by Gladwell, Wilson & Co., Regina, and was well known in the city. The following extract is taken from the Regina "Leader":—

"Mr. Reid was a man of cultivated tastes, particularly along musical lines, and his warmth and sweetness of nature endeared him to all who were associated with him. His death at so early an age gives cause for mourning, though memories of him will be of the kindliest."

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ALBERTA.

(incorporated 1910.)

Cecil E. Race, President. W. W. Gould, Secretary.

A Council meeting was held in Calgary in August to deal with an accumulation of routine matters.

Messrs. W. H. A. Thompson and W. W. Gould, the representatives to the D.A.C.A. in Montreal in September, report an interesting and helpful meeting and a good social time.

S. Russel Reid has accepted a position in Toronto with the firm of Messrs. Thorne, Mulholland & Co.

John Harvey has moved to Vancouver and is now employed with Marwick, Mitchell, Peat & Co. in that city.

Henry G. Norman, who has been overseas for over two years, has returned to Edmonton. He enlisted with the 51st as a private, but received his commission over there. During the two years he was in active service on the Somme, at Vimy Ridge and Paschendael. Fortunately, he came through without injury and is looking well. We welcome him back to the profession. His plans at present are not complete, but he will no doubt return to practice.

Mr. R. H. G. Gemmell, who is now in the employ of Messrs. Barrow, Wade, Guthrie & Co., Chartered Accountants, New York and Philadelphia, spent the New Year with friends at Edmonton.

Douglas Dewar has returned from overseas and is connected with the firm of Messrs. Marwick, Mitchell, Peat & Co. at Montreal.

The Senate of the University of Alberta is giving consideration to the postponement of the examinations of the Institute for a few weeks after April 22nd next, owing to the general interruption caused by the influenza epidemic

Dominion Association of Chartered Accountants

OFFICERS 1918-1919

President:

JOHN PARTON .. .. Winnipeg, Man.

Vice-President:

ARTHUR C. NEFF .. .. .. Toronto, Ont.

Secretary-Treasurer:

W. D. GLENDINNING .. .. Winnipeg, Man

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REPRESENTATIVE	ELECTED BY
F. W. Sharp, Montreal, Que. ..	The Association of Accountants in Montreal.
James Hutchison, Montreal, Que. ..	
R. J. Dilworth, Toronto, Ont. ..	The Institute of Chartered Accountants of Ontario.
Arthur C. Neff, Toronto, Ont. ..	
Bryan Pontifex, Toronto, Ont. ..	
John Parton, Winnipeg, Man. ..	The Institute of Chartered Accountants of Manitoba.
F. C. Gilbert, Winnipeg, Man. ..	
T. L. E. Piers, Halifax, N.S. ..	The Institute of Chartered Accountants of Nova Scotia.
Gordon Tansley, Vancouver, B. C.	The Institute of Chartered Accountants of British Columbia.
H. D. Christie, Vancouver, B.C. ..	
F. J. Wilson, Regina, Sask. .	The Institute of Chartered Accountants of Saskatchewan.
A. W. Goldie, Regina Sask. ..	
W. H. A. Thompson, Calgary, Alta.	The Institute of Chartered Accountants of Alberta.
W. W. Gould, Edmonton, Alta. ..	

OFFICIAL LIST MEMBERS DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS.

NOTE.—This list does not contain the names of those members of a Provincial Society non-resident in Canada, By-Law No. 1 of the Dominion Association of Chartered Accountants providing "the membership shall be *ipso facto* the members in good standing resident in Canada," etc.

The Association of Accountants in Montreal.

Name.	Address.
Apedaile, J. L.	17 St. John Street, Montreal.
Baker, C. W.	232 St. James Street, Montreal.
Baker, E. M.	80 St. Francois Xavier St., Montreal.
Bennett, E. J.	125 St. Peter Street, Montreal.
Birnie, J. G.	232 St. James Street, Montreal.
Brimacombe, L.	180 St. James Street, Montreal.
Brodie, A B.	145 St. James Street, Montreal.
Campbell, S. R.	142 Notre Dame Street W., Montreal.
Cinq Mars, A.	50 Notre Dame Street W., Montreal.
Clague, J. A.	142 Notre Dame St. W., Montreal.
Cole, A. W.	157 St. James Street, Montreal.
Cole, Ernest C.	84 Commercial Union Building, Montreal.
Creak, George	80 St. Francois Xavier Street, Montreal.
Cross, A.	142 Notre Dame Street West, Montreal.
Currie, G. S.	179 St. James Street, Montreal.
Cushing, L.	80 St. François Xavier Street. Montreal.
Davenport, Geo.	Room 200, 103 St. Francois Xavier St., Montreal.
Davy, J. H.	211 McGill Street, Montreal.
Dickson, W. F.	383 Claremont Avenue, Westmount.
Dowie, L. A.	142 Notre Dame Street West, Montreal.
Duff, J. M. M.	4880 Sherbrooke Street, Westmount.
Durnford, Geo.	189 St. James Street, Montreal.
Edwards, H. P.	107 St. James Street, Montreal.
Ferrie, R.	109 Board of Trade Building, Montreal.
Fisk, A. K.	703-4 Eastern Townships Bank Building, Montreal.
Gagnon, P. A.	316 Quebec Bank Building, Montreal.
Grant, J. A.	142 Notre Dame Street West, Montreal.
Hains, John McD.	412 Coristine Building, Montreal.
Hill, M. S. T.	235 Board of Trade Building, Montreal.
Hodgson, C. A.	80 St. Francois Xavier Street, Montreal.
Hodgson, G. W.	511 Power Building, 83 Craig Street West, Montreal.
Hope, A. E. M.	263 St. James Street, Montreal.
Hutchison, Jas.	80 St. Francois Xavier Street, Montreal.
Hyde, John	304 Merchants Bank Building Montreal.

Jones, W. S.	137 McGill Street, Montreal.
Jones, G. McCarthy.	854 Lorne Crescent, Montreal.
Keddie, J. M.	British Chemical Co., Trenton, Ont.
Kerr, David S.	145 St. James Street, Montreal.
Kingan, G. B.	120 St. James Street, Montreal.
Kent, L.	86 Notre Dame Street West, Montreal.
L'Heureux, J. A.	11 Place D'Armes, Montreal.
Labelle, J. Z.	Riddell, Stead, Graham & Hutchison, 80 St. François Xavier Street, Montreal.
Larue, J. A.	126 Rue St. Pierre, Quebec.
Macintosh, P.	157 St. James Street, Montreal.
McDonald, G. C.	52 Metropolitan Building, Montreal.
McNab, J. C.	201 Royal Trust Building, Montreal.
Midgley, H. E.	103 St. François Xavier Street, Montreal.
Miller, Robt.	Montreal.
Mitchell, A. F.	69 St. François Xavier Street, Montreal.
Mundell, W. J.	27 Alloway Avenue, Winnipeg, Man.
Murray, Jr., J. R.	241 Clarke Ave., Westmount, Que.
Paterson, C. A.	157 St. James Street, Montreal.
Paterson, John	80 St. François Xavier Street, Montreal.
Payne, Gordon S.	551 Lansdowne Avenue, Westmount, Que.
Peckham, S. Brittain.	142 Notre Dame St. W., Montreal.
Peel, Edwin	109 Board of Trade Building, Montreal.
Piper, H. S. T.	157 St. James Street, Montreal.
Plimsoll, A. H.	210 Milton Street, Montreal.
Probyn, Percival	145 St. James Street, Montreal.
Rathie, W. W.	120 St. James Street, Montreal.
Riddell, A. F.	80 St. Francois Xavier Street, Montreal.
Ritchie, C. F.	211 McGill Street, Montreal.
Robertson, A. S.	128 Bleury Street, Montreal.
Ross, Alex. F. C.	142 Notre Dame Street West, Montreal.
Ross, J. G.	142 Notre Dame Street West, Montreal.
Ross, John W.	142 Notre Dame Street West, Montreal.
Savage, E. B.	86 Notre Dame Street, Montreal.
Savage, G. A.	91 Commercial Union Building, Montreal.
Scott, Gordon W.	142 Notre Dame Street West, Montreal.
Sharp, F. W.	501 Power Building, Montreal.
Skelton, C. Harold	703-4 Eastern Townships Bank Building, Montreal.
Smith, H. Meredith.	180 St. James Street, Montreal.
Stead, A. C.	80 St. François Xavier Street, Montreal.
Stevenson, A. W.	802 Eastern Townships Bank Building, Montreal.
Stevenson, Reginald C.	c/o A. K. Fisk, Skelton & Co., 263 St. James St., Montreal.
Trudel, Eugene	126 St. Peter Street, Quebec, Que.

Wilson, Robt.	Board of Trade Building, Montreal.
Wilson, W. S.	83 Bank of Ottawa Building, Montreal.
Wurtele, E. F.	408 Mappin & Webb Building, Montreal.

The Institute of Chartered Accountants of Ontario.

Name.	Address.
Adams, A. W.	36 Toronto Street, Toronto.
Allen, Loftus A.	508 Lumsden Building, Toronto.
Anderson, J. D.	122 Board of Trade Building, Montreal.
Andrews, W S	4 Beaumont Road, Toronto.
Atkinson, J. L.	Room 21, 10 Adelaide St. East, Toronto.
Barber, Henry	18 Wellington Street East, Toronto.
Bates, H. S.	102 Bank Street, Ottawa.
Baxter, P. C.	85 Bay Street, Toronto.
Begg, G. M.	262 Carlton Street, Toronto.
Benson, Wm. C.	120 Bay Street, Toronto.
Blanchard, A.	93 Worthington Street West, North Bay.
Blatch, G. L.	193 Sparks Street, Ottawa.
Boulton, A. St. G.	15 Wellington Street West, Toronto.
Brown, J. Albert	Athelma Apartments, Toronto.
Bunnell, A. K.	City Hall, Brantford.
Burns, R. E.	Ontario Chambers, Kingston.
Calder, A. G.	693 Talbot Street, London, Ont.
Campbell, G. D.	59 Yonge Street, Toronto.
Chamberlain, A. F.	74 Nepean Street, Ottawa.
Clark, T. S.	Cobalt, Ont.
Clarke, J.	32 Church Street, Toronto.
Clarke, J. J.	Toronto.
Clarkson, E. R. C.	15 Wellington Street West, Toronto.
Clarkson, G. T.	15 Wellington Street West, Toronto.
Cooper, R. J.	44 Heath Street East, Toronto.
Craig, W. H.	109 Gore Street, Kingston.
Crawford, J. E.	136 N. Franklin Street, Fort William.
Crawley, A. A.	50 Albert Street, Ottawa.
Cringan, J. W.	633 Church Street, Toronto.
Cunningham, G. de H.	165 Spark Street, Ottawa.
Cunningham, J. F.	165 Spark Street, Ottawa.
Dawson, P. H. B.	Union Bank Chambers, Fort William.
Day, Q. D.	Room 28, 82-88 King Street E., Toronto.
Dilworth, R. J.	15 Wellington Street West, Toronto.
Doggerell, A. J.	776 Wellington Street, London.
Draper, Gordon V.	444 Roxton Road, Toronto.
Dunlop, W. M.	Citizen Building, Ottawa.
Eddis, W. C.	706 Continental Life Building, Toronto.
Eddis, J. W.	706 Continental Life Building, Toronto.
Eddis, G. S.	706 Continental Life Building, Toronto.
Edwards, A. Geoffrey	10 Adelaide Street E., Toronto.

Edwards, Geo.	10 Adelaide Street E., Toronto.
Edwards, Oswald N.	10 Adelaide Street E., Toronto.
Falls, A. F.	Victoria Block, Chatham, Ont.
Fenton, Wilson	17-31 King Street East, Toronto.
Ferguson, W. S.	Forum Building, Toronto.
Fisher, A. M.	33 B, Board of Trade Building, Montreal.
Fleming, C. A.	823 Second Avenue, Owen Sound.
Geggie, Thomas P.	116 Dowling Avenue, Toronto.
George, James	36 Maple Avenue, Toronto.
Gerry, Nelson B.	63 Hewitt Avenue, Toronto
Gibbs, Frank P.	87 Dunn Avenue, Toronto.
Godson, W. P.	30 Leopold Street, Toronto.
Goldman, L.	112 King Street West, Toronto.
Goodman, M.	1617 Mance St., Montreal.
Gordon, H. D. L.	15 Wellington Street West, Toronto.
Gray, James C.	Goodyear Building, Toronto.
Guilfoyle, Harvey E.	15 Wellington St. West, Toronto.
Gunn, Edmond	25 Toronto Street, Toronto.
Hampton, Jas. H.	47 Adelaide Street E., Toronto.
Harbinson, V. D.	15 Wellington St. West, Toronto.
Hardy, James	15½ Toronto Street, Toronto.
Haywood, L. J.	48 Canada Life Building, Toronto.
Higgins, F. P.	47 Adelaide Street East, Toronto.
Hilborn, Melvin	1315 Bank of Hamilton Bldg., Toronto.
Hillman, H. P. L.	648 Ontario Street, Toronto.
Howson, E. J.	1315 Bank of Hamilton Bldg., Toronto.
Hudson, O. M.	32 Church Street, Toronto.
Hughes, John	c/o Marwick, Mitchell, Peat & Co., Winnipeg.
Hurst, Fred. C.	25 Toronto Street, Toronto.
Jackson, J. A.	150 Carling Avenue, Ottawa.
Jamieson, H. T.	Royal Bank Building, Toronto.
Jenkins, Thos.	15½ Toronto Street, Toronto.
Jephcott, A.	469 King Street West, Toronto.
Jewell, F. G.	314 Dominion Savings Building, London.
Johnson, J. W., M.P.P.	Belleville.
Johnson, R. W.	"Times" Building, St. Thomas.
Kernahan, W. T.	17 Gould Street, Toronto.
Kerr, Frank L.	15 Wellington Street W., Toronto.
Kettlewell, W. C.	14 Montclair Avenue, Toronto.
Kidd, F. H.	404 Central Building, Victoria, B.C.
Kittson, H. N.	25 Main Street West, Hamilton.
Lang, J. N.	86 Adelaide Street East, Toronto.
Langley, J. P.	McKinnon Building, Toronto.
Larmonth, E. A.	46 Elgin Street, Ottawa.
Lawless, Thos. E.	142 Bloor Street W., Toronto.
Lawson, A. T.	907 Excelsior Life Building, Toronto.

Leishman, E. J.	Queen's Court Apartments, Jarvis Street, Toronto.
Levack, W. P.	519 Roxton Road, Toronto.
Lord, H. L.	St. Blaise, Que.
Macdonald, D. B.	32 Church Street, Toronto.
Macnamara, Theo. T.	10 Adelaide Street E., Toronto.
Mapp, Jai V.	15 Wellington Street W., Toronto.
Martin, J. S.	67 Lowther Avenue, Toronto.
Martin, N. L.	64 Wellington Street W., Toronto.
Merson, G. O.	807 Lumsden Building, Toronto.
Miller, A. A.	15 Wellington Street West, Toronto.
Milne, A. M.	288 First Avenue, Ottawa.
Morgan, W. P.	10 Adelaide Street East, Toronto.
Morphy, Arnold	Upper Canada College, Toronto.
Morris, W. R.	375 Water Street, Peterboro'.
Morrison, G. W.	70 Wellington Street West, Toronto.
Morrison, S. A	304 Crown Life Building, Toronto.
Mortimer, H.	Confederation Life Building, Toronto.
Mulholland, G. M.	1315 Bank of Hamilton Building, Toronto.
Mutrie, J. T.	Vernon, B.C.
McClelland, D. McK.	802 Royal Bank Building, Toronto.
McDermid, E. B.	711 Rogers Building, Vancouver, B.C.
McLeod, Norman B.	803 Kent Building, Toronto.
McMichael, A. R.	706 Continental Life Building, Toronto.
McMillan, James	295 Princess Avenue, London.
McNabb, John D.	15 Wellington Street West, Toronto.
McPherson, R. S.	1315 Bank of Hamilton Building, Toronto.
Nasmith, H. C.	15 Wellington St. W., Toronto.
Neff, A. C.	70 Victoria Street, Toronto.
Osler, A. E.	Jordon and Melinda Streets, Toronto.
Parker, C. J.	10 William Street, Brantford.
Pentelow, W. M.	11 Stuart Street, Guelph.
Peters, Gordon A.	510 Lumsden Building, Toronto.
Pettit, W. H.	32 Church Street, Toronto.
Pontifex, Bryan	906 Excelsior Life Building, Toronto.
Roberts, F. E.	25 Toronto Street, Toronto.
Robertson, I. P. McI.	70 Victoria Street, Toronto.
Robertson, John B.	24 King Street West, Toronto.
Robinson, G. A.	24 King Street West, Toronto.
Robinson, M. H.	Bank of Hamilton Building, Toronto.
Ross, W. J.	Sudbury, Ont.
Rougvie, John N.	510 Union Bank Building, Ottawa, Ont.
Rowbotham, G. G.	802 Royal Bank Building, Toronto.
Rowlands, R. F.	Quebec Bank Building, Toronto.
Rumble, I. A.	Alma, Ont.
Scott, C. S.	28 James Street South, Hamilton.
Scott, S. C.	City Hall, Toronto.

Scully, James M.	Kitchener, Ont.
Seburn, T. I.	19 Melinda Street, Toronto.
Shepard, A. B.	1315 Bank of Hamilton Building, Toronto.
Shiell, Robt.	15 Wellington Street West, Toronto.
Short, Frank G.	403 McKinnon Bldg., Toronto.
Shultis, A.	44 William Street, Brantford.
Sime, T. Watson	728 Bank of Hamilton Building, Toronto.
Smeeton, A. E.	95 St. Clair Avenue East, Toronto.
Smith, G. E. F.	Care of Dominion Canners, Limited, Hamilton.
Sorley, S. H.	1315 Bank of Hamilton Building, Toronto.
Soutar, A. F.	6 Cuthbert Crescent, Toronto.
Spence, R. F.	Room 28, 82-88 King Street East, Toronto.
Stephens, H. A.	47 Adelaide Street E., Toronto.
Stiff, F. J.	728 Bank of Hamilton Building, Toronto.
Stiff, G. U.	728 Bank of Hamilton Building, Toronto.
Stone, C. E.	7 King Street West, Toronto.
Sutcliffe, J. I.	Bank of Hamilton Building, Toronto.
Taylor, W. D.	15 Wellington Street West, Toronto.
Thorne, John L.	1315 Bank of Hamilton Building, Toronto.
Tindall, W. B.	26 Ernest Avenue, Toronto.
Tolley, W. A.	City Auditor, City Hall, Ottawa.
Townsend, S. E.	202 Confederation Life Building, Toronto.
Turner, James	73 Triller Avenue, Toronto.
Urquhart, C. R.	1603 Royal Bank Building, Toronto.
Vanstone, H. W.	1315 Bank of Hamilton Building, Toronto.
Vigeon, Harry	2 Leader Lane, Toronto.
Vigeon, H. Frank	2 Leader Lane, Toronto.
Wade, Osler	32 Front Street West, Toronto.
Walker, A. J.	86 Adelaide Street East, Toronto.
Wallace, John D.	86 Adelaide Street East, Toronto.
Welch, Harry J.	59 Yonge Street, Toronto.
Welch, Geo. A.	46 Elgin Street, Ottawa.
Westervelt, J. W.	London.
Williamson, R.	86 Adelaide Street East, Toronto.
Wilson, Edwin	85 Bay Street, Toronto.
Wood, E. R.	26 King Street East, Toronto.
Young, J. H.	64 Wellington Street West, Toronto.
Young, R. E.	48 Canada Life Building, Toronto.

The Institute of Chartered Accountants of Manitoba.

Name.	Address.
Anderson, J. S.	610 McArthur Building, Winnipeg.
Anderson, Thos.	141 Sherbrooke Street, Winnipeg.
Armstrong, A.	808 Confederation Life Bldg., Winnipeg.
Ashley, A. V.	808 Confederation Life Bldg., Winnipeg.

Baker, R. J.	852 Wolseley Avenue, Winnipeg.
Bell, Joseph	409 Merchants Bank Building, Winnipeg.
Boyle, Alex. R. M.	610 McArthur Building, Winnipeg.
Brown, S. George	1011 McArthur Building, Winnipeg.
Chaplin, E. V.	312 Kennedy Building, Winnipeg.
Cherry, H. M.	1008 McArthur Building, Winnipeg.
Clerke, Alfred Stuart.	1011 McArthur Building, Winnipeg.
Cooper, David	352½ Portage Avenue, Winnipeg.
Corbould, C. D.	902 Paris Building, Winnipeg.
Craggs, G. Somerville	902 Union Trust Building, Winnipeg.
Crossin, A. L.	234 Portage Avenue, Winnipeg.
Drennan, K. W.	200 Belgica Block, Winnipeg.
Dunwoody, J. M.	409 Merchants Bank Building, Winnipeg.
Fanshawe, Alex. J. J.	610 McArthur Building, Winnipeg.
Gabriel, Chas. Felix	196 Dromore Avenue, Winnipeg.
Gibb, A. Wiseman	604 Trust and Loan Building, Winnipeg
Gilbert, F. C.	909 Electric Railway Chambers, Winnipeg.
Giles, Robt. W.	805 Confederation Life Bldg., Winnipeg.
Glendinning, W. D.	409 Merchants Bank Building, Winnipeg.
Grant, James	502 Trust and Loan Building, Winnipeg.
Grant, W. Ross	409 Merchants Bank Building, Winnipeg.
Gray, William	502 Trust and Loan Bldg., Winnipeg.
Griggs, B. F.	804 Lindsay Building, Winnipeg.
Hayward, R. H.	14 Monadnock Building, Winnipeg.
Hegan, C. R.	610 McArthur Building, Winnipeg.
Henderson, W. A.	508-9 Winnipeg Electric Chambers (P.O. Box 805), Winnipeg.
Hollands, W. W.	338 Redwood Avenue, Winnipeg.
Hopkinson, J.	139 Luxton Avenue, Winnipeg.
Howat, Hugh	Care of Arctic Ice Co., Winnipeg.
Hutton, D. R.	309 Merchants Bank Building, Winnipeg.
Jex, W. R.	204 Sterling Bank Building, Winnipeg.
Laing, George S.	338 Grain Exchange Bldg., Winnipeg.
Laird, Wm. C.	909 Electric Railway Chambers, Winnipeg
Lampman, R. W.	National Trust Co., Winnipeg.
Law, T.	909 Electric Railway Chambers, Winnipeg.
Ligertwood, J. C. M.	212 Lipton Street, Winnipeg.
Loos, G.	176 Marion Avenue, Norwood, Man.
Love, W. D.	364 Main Street, Winnipeg.
McClure, James	409 Merchants Bank Building, Winnipeg.
Macdonald, W. J.	805 Lindsay Building, Winnipeg.
Macdonnell, R. C.	37 Clement Block, Brandon.
Macintosh, C. P.	610 McArthur Building, Winnipeg.
Millar, Jas. Culross	10 Thelma Apartments, Winnipeg.
Morden, Harold J.	215 Curry Building, Winnipeg.
Nairn, J. L.	200 Belgica Block, Winnipeg.

Parton, John	610 McArthur Building, Winnipeg.
Pender, D. A.	805 Confederation Life Bldg., Winnipeg.
Phillips, A. E.	1207 Union Trust Building, Winnipeg.
Ptolemy, W. J.	Provincial Treasurer's Office, Winnipeg.
Ramage, Wm.	Adanac Club, Winnipeg.
Rankin, Ewen	349 Grain Exchange, Winnipeg.
Read, E. S.	610 McArthur Building, Winnipeg.
Reade, H. T.	407 Quebec Bank Building, Winnipeg.
Reid, J. D.	P.O. Box 805, Winnipeg.
Roberts, R. A.	805 Electric Railway Chambers, Winnipeg
Ronald, W. S.	804 Lindsay Building, Winnipeg.
Sanburn, W. G.	352½ Portage Avenue, Winnipeg.
Saul, T. W.	349 Grain Exchange, Winnipeg.
Scott, John	200 Belgica Block, Winnipeg.
Scott, W. B.	501 Confederation Life Bldg., Winnipeg.
Sharp, G. C.	305 Confederation Life Bldg., Winnipeg.
Shelly, J. J. C.	407 Quebec Bank Building, Winnipeg.
Slasor, Henry	805 Confederation Life Bldg., Winnipeg.
Saunders, W. J.	610 McArthur Building, Winnipeg.
Stirling, J. F.	349 Grain Exchange, Winnipeg.
Swinford, H.	N.P. Railway, Vancouver, B.C.
Turner, F. C. S.	502 Trust and Loan Building, Winnipeg.
Webb, T. Harry	610 McArthur Building, Winnipeg.
White, C. E.	710 Electric Railway Chambers, Winnipeg
Woodley, J. R.	502 Trust and Loan Building, Winnipeg.
Wylie, J. Gilmour	805 Winnipeg Electric Chambers, Winnipeg.
Young, David	902 Union Trust Building, Winnipeg.
Young, John A.	1011 McArthur Building, Winnipeg.
Young, J. R.	403 Belgica Building, Winnipeg.

Institute of Chartered Accountants of Nova Scotia.

Name.	Address.
Abbott, E. H.	Truro, N.S.
Artz, G. J.	Finance Department, Ottawa, Ont.
Atherton, J. P.	P.O. Box 171, Sussex, N.B.
Blackett, J. R.	319 Barrington Street, Halifax.
Blanchett, P. F.	St. John, N.B.
Carter, R.	McCurdy Building, Halifax.
Coldwell, B. A.	22 Eddy Street, Amherst, N.S.
Cox, Arthur E.	St. John, N.B.
Creelman, T. W.	(Imperial Oil Co.), Regina, Sask.
Creighton, H. D.	223 Hollis Street, Halifax.
Crowell, H. E.	Box 388, Halifax, N.S.
Dennis, C. D.	Amherst.

Dickson, G. W.	223 Hollis Street, Halifax.
Dustan, George G.	St. Paul Building, Halifax.
Faulkner, Hon. G. E.	173 Hollis Street, Halifax.
Glendinning, C. H.	New Glasgow, N.S.
Holder, G. H.	128 Cunard Street, Halifax.
Johnson, T. H.	Keith Building, Halifax.
Kaulbach, E.	P.O. Box 746, Halifax.
Leverman, W. E.	Room 26, Roy Building, Halifax.
Longard, E. J.	117 Inglis Street, Halifax.
Martin, R. L.	109 Edward Street, Halifax.
McDonald, R. A.	185 Hollis Street, Halifax.
MacIntyre, A. P.	250 Rockland Avenue, St. John, N.B.
MacIntyre, R. A.	261 Douglas Avenue, St. John, N.B.
McNeill, P. L.	525 Seymore Street, Vancouver, B.C.
Oxley, Col. F. H.	38 Inglis Street, Halifax.
Piers, T. L. E.	130 Jubilee Road, Halifax.
Stech, Henry J.	9 Church Street, Halifax.
Torey, C. L.	83 South Park Street, Halifax.
Wood, Joseph	Sydney Mines.
Woodin, L. A.	Halifax.

Institute of Chartered Accountants of British Columbia.

Name.	Address.
Alderson, E. Reginald	Vancouver.
Anderson, W. B.	708 Yorkshire Building, Vancouver.
Bawden, W. A.	P.O. Box 87, Victoria.
Bell, Robert	901 London Building, Vancouver.
Bland, T. N.	705 London Bldg., Vancouver.
Brewis, John F.	210 Bank of Ottawa Bldg., Vancouver.
Buttar, W. S.	901 London Building, Vancouver.
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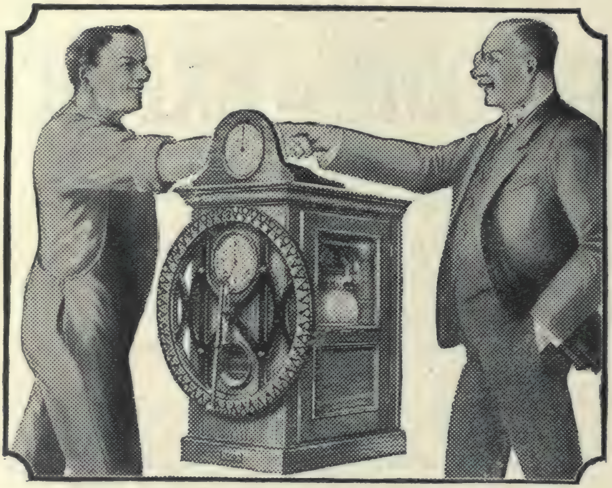

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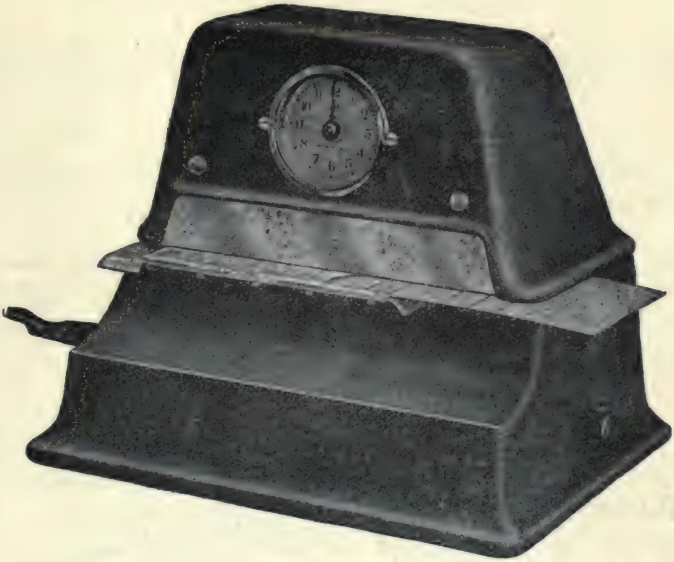

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The Canadian Chartered Accountant

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THE CANADIAN
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VOL. VIII. APRIL, 1919 NO. 4

THE WINNIPEG CONVENTION

THE arrangements for the Annual Meeting of the Dominion Association are now in hand, and it is proposed that this take place on Tuesday, Wednesday and Thursday, the 9th, 10th and 11th of September. This Convention will be a particularly important one, being the first to be held after the war, and coming in a time of reconstruction, with the attendant problems of such a period to be faced. It is, therefore, hoped that there will be a record attendance, and that members will go to Winnipeg with a full realization that the utmost help from each of them is essential to the welfare of the profession.

In the meantime, all members are invited to communicate any matters of interest to the Association through the Secretary, particularly any which they desire to have dealt with at the Convention. If this is done, it will enable the Council to give such thought to the matter beforehand that it may be disposed of during the Convention and prompt action taken, if necessary.

A committee of members of the Manitoba Institute has been formed to arrange for the entertainment of visiting members of the D.A.C.A. This committee is even now actively interesting itself in the Convention, and the next issue of the "Canadian Chartered Accountant" will contain the full programme of events, both as to business and recreation.

JOHN PARTON, President.

PROFIT SHARING

BY MR. B. E. MURPHY, M.A., LL.B.,
B. Com., F.R.E., Lecturer in Economics at Victoria College

UNDER modern conditions of capitalist production, the characteristic and predominant type of industrial concern is that in which the employer, whether individual, firm or company, makes himself responsible for the initiation, direction and risks of industry, by providing plant and raw material, premises and capital, and hiring labor at a fixed rate, with the object of turning out goods and selling them at a profit. This is called capitalism, and under it the risk-taking employer hires the factors of production at a fixed rate and himself takes any profit or bears any loss.

Now, under this system labor-power is hired just like land and capital, and this is what the Socialist means when he talks about wage slavery. The worker feels that he is a mere tool, just part of the apparatus, to be bought and scrapped. One big employer in New Zealand, indeed, stated recently that he regarded his workers as "mere machines, something to buy and sell." In these circumstances, there is little wonder that all sense of co-operation in social service is lost, that the wage system is becoming increasingly distasteful to Labor, and that there are signs of growing industrial unrest. The worker is seeking to cease being a tool and to become a man, nor can anybody outside the capitalistic exploiting class blame him for so doing.

In order to turn the flanks of these difficulties without waiting for Labor to rise and smash up the whole system, various devices have been tried or suggested. One of these, productive co-operation, has already been discussed, and we now proceed to consider a further development, often loosely described as labor co-partnership, but more accurately known as profit-sharing. This is essentially different from co-operative production, under which an effort is made to reconcile employees and employer by combining both functions in the same group, and which hitherto, having failed to enlist the sympathy and services of the managerial classes, has been unsuccessful. Profit-sharing aims at no radical alteration in the basis of capitalistic industry. What it seeks to do, as the name implies, is to share among the workers some of the gains which would ordinarily go to the employer as profit.

As a general rule, no attempt is made to modify interest or wages, which are paid at the current rate; what is shared is the balance of profit after these deductions are made, and the sharing may be made on various bases, and in varied proportions. Sometimes profits are shared half and half, sometimes in proportion to aggregate wages and total capital, sometimes at a fixed rate on capital and wages: the forms are infinite, but the principle throughout is the same. Moreover, the workers' share is not always or even generally paid in cash; much more usually it is kept in the concern as working capital, credited to the worker, and entitled to interest and profits like ordinary capital. Sometimes representation is given to Labor on the directorate of the concern.

The system where introduced has seldom been a matter of altruism or philanthropy. There are, of course, business men of ideals and altruism, but such men are rare, and it may be said that employers have adopted the plan where it appeared likely to pay, and dropped it where it did not. It has been claimed, however, and probably with a great measure of truth, that profit-sharing, by giving the men an interest in the work, will increase the quantity and improve the quality of the product, will result in less wasted material, fewer disputes, with their stoppage and expense, and less cost of superintendence, while from the worker's point of view it will mean added dignity and greater reward. It now remains to consider to what extent these claims are justified and what prospect there is of profit-sharing being a solution of the Capital and Labor problem.

In the first place, it may be conceded that a measure of profit-sharing will result in the economies above mentioned, but therein lurks one of the strongest objections in practice to the system. It is hardly likely to inspire confidence in the employee when he finds profit-sharing enthusiastically acclaimed by the employer as a money-making scheme. The average worker regards the employing class as a gang of predatory bandits and he looks on profit-sharing as a device to wring more out of him. According to this view, the employer says to his men: "Work harder, save material and increase my profit. If you do, I will give you a percentage of the increase." This is not an attitude likely to commend itself to Labor, and labor distrust deepens when the further danger lurking behind the system is exposed.

Most profit-sharing schemes show that in addition to increased gain, the object of the employer is to smash the men's unions. Profit-sharing is a device for binding together the men and masters in an enterprise. Now, trade unions look to a horizontal solidarity; all employees in a trade to be united to protect their common interests, while on the other hand, profit-sharing looks to a vertical division, where all in an industry are to be united, both master and men, for their common welfare. Of course, both types of association might be pursued each in its appropriate sphere, but in practice this is not found and it is therefore not surprising that the whole weight of organized Labor is generally dead against profit-sharing, regarding it as an employers' dodge to break up the union, as it often is. Apart, too, from the contention that profit-sharing is a device to sweat the men and destroy their organizations, it is alleged that profit-sharing concerns pay less than competitive wages and that the real reward of labor, including the so-called share of profits, is no greater than in non-sharing concerns. It results, say its opponents, in a system of more or less benevolent feudalism.

It is hard to dismiss these objections as fanciful, for obviously the attitude of labor is vital on the question of the success of the system, so that if it is generally opposed by the workers it cannot succeed. There is, however, another economic objection to profit-sharing that is hard to remove and that is succinctly put by Schloss in the following well-known passage: "It is quite possible that the workman who, in the hope of earning a bonus to labor, has done work ten per cent. in excess of the normal standard, may, under a liberal scheme of profit-sharing, find that instead of receiving an addition to his normal wages of say, five per cent., the bad management of his employer has reduced his bonus to so low a level that he has to be content with a supplement equivalent to only two per cent. on his wages, or that no bonus whatever is available. If I am to do ten per cent. more and better work than I did last year, why not offer me a ten per cent. increase in my wages subject only to its being shown that my work exhibits a ten per cent. improvement? Why tempt a working man to gamble by staking a part of the reward of his labor on the financial result of a business over the conduct of whose financial operations he is not allowed to possess any control and would, perhaps, seldom be competent even if he were allowed, to exercise any useful control?"

It is difficult to answer this accumulation of unfavorable evidence from the labor side, and we are justified in believing that profit-sharing will not be in the interests of the workers and will in all probability be rejected by them. There is little doubt, however, that shrewd employers will do their utmost to have it accepted.

Profit-sharing has not spread with the rapidity that many hoped and has in some industries been tried and abandoned. It is only fair, however, to state that it often has not had anything like a fair chance. To divide ten per cent. of profit among the men and call this dole "profit-sharing" is plain nonsense. It might be that if it became the practice to divide equally between Labor and Capital the net profit after payment of wages (including management) and interest, the system would commend itself to both sides as a fair compromise, and go far to assuage the mutual bitterness and suspicion that is rapidly dividing society into two powerful and hostile camps. I am inclined, however, to doubt its efficacy in this connection. Death-bed repentance by the profiteers is a suspicious sign, and there is no guarantee that, having broken the unions, the profit-sharing schemes would not go the way of other scraps of paper. Moreover, for good or ill, horizontal divisions are becoming more marked and this makes a vertical line of cleavage more difficult to establish. There appears to be little sign of a panacea for capitalistic ills short of a change of heart or a change of system. As long as industry is the battle-ground of competitive greed, as long as it is an accepted principle to get as much as possible for as little as possible, as long as "business is business," so long will we have a fierce struggle among the factors of production for a greater share of the product. There are no short cuts to the Millenium.—From Accounting and Commerce.

CAN PROFITS BE SHARED?

BY ENTROPY

(From The American Machinist.)

SYNOPSIS.—*Some of the problems to be met in considering the plans of increasing the interest of men in the shop by dividing a portion of the earnings with them. Frequent divisions desirable to hold interest. Who shall share and how shall each receive his just proportion?*

WHEN I was a small boy, my father took me on a trip into the backwoods of Vermont. We saw a man driving a horse over whose head had been rigged a fishpole. From the end of the fishpole there dangled a bunch of hay that was just out of reach. The idea, apparently, was to entice the horse out of a slow walk by the lure of the hay. As I remember it, the results were not satisfactory. The horse may have tried, but by the time we saw it, it had given up the chase.

Profit sharing is one of those perfectly obvious things that seem sound in principle but which do not seem to work out any better in practice than the bunch of hay. Every man who works for a concern that is making large profits would like a share. If he gets it, he is likely to find that what looks like a large sum in one heap looks diminutive when divided by the number who have helped to pile it up. The employer who is making large profits feels that if by dividing a portion of them among his employees he can keep them with him for long periods, it will pay increased dividends that will more than compensate for his apparent generosity. Pure altruism gives the whole plant to the employees plus the guiding brain that makes its success possible, but it is not business.

There are a number of things which must be faced in starting any scheme of profit sharing that usually do not receive the attention they later demand. One of these is that any system to succeed must be workable through all sorts of conditions. It should be as applicable to a new concern as to one that has already piled up a surplus. That is, the men who share the profits must have no guarantee of their amount. The firm that offers as a bonus a percentage of the pay that a man has received is not sharing profits, it is raising wages. Wages once raised become a right in the minds of the workers, and it is dangerous to cut them.

Profit sharing, then, must be on the basis of a division of a certain definite proportion of the profits earned during a given period. If there is a lean year and no profit is made, the stockholders may be paid out of the accumulated surplus, but if employees are paid, it is merely a loan against the future earnings, not a legitimate share of the profits. It is better that everyone should know and feel the fact that the company is not making money, if it is not. That is the real value of profit sharing, to make men see that profits depend on them; therefore, profits should be figured as often as possible—at least once a month—even if they are not paid as often as that. The fact that employees are not in business for themselves implies in many cases that they have not the far-sightedness or the thrift that keeps a man content to wait for deferred payments. They want it now. In states where weekly payments of wages are made, and the option is given of having weekly or monthly payments, it is surprising how far up the line men prefer weekly payments.

Frequent division of profits means more bookkeeping than if the division were only required annually. That costs money, but it is a growing custom that pays in other ways in many industries. The actual physical inventory that is necessary may be taken only once a year, but a perpetual inventory is almost a present day necessity.

Once the decision has been made to divide a proportion of the actual net profits among the workmen, and to do it at frequent intervals so as to keep up the interest, the next thing is to decide who is to share them. It is customary to limit the participants to those that have been in the employ of the company at least six months or a year, or longer, according to the taste of the individual that is making the plans. It is also customary to limit the division to those that the management suspects of being able to understand it. One thing seldom done is to divide according to the effort that men have made to create profits. The drone gets as much as the worker, except so far as his laziness has been discounted in the rate of pay offered. This is wrong, but it is the easiest way.

In an ordinary corporation all that the stockholders usually put in is money, or its equivalent. The earning power of one dollar is very much like the earning power of another. If one of the stockholders works for the company, he goes on the pay roll. He then draws money in a dual way, part as interest and reward for risk on the money that he has put in and part for services rendered. If he does not earn the latter, his colleagues freeze him out and hire some one who can.

But in present-day shops a man's fellow workmen have no voice in judging his value, and have no influence, at least legitimately, on his leaving. The consequence is that if a workman is at all good at covering his tracks he can stay on and on and under any of the common profit-sharing systems draw as much money as the next man. Distribution according to piecework earnings is also dangerous, for even when drawing large wages a man may be working against the real interest of the company. It is oftentimes necessary that some work in a shop be done at a loss in order that a greater profit may be made elsewhere, so it is necessary that the basis of profit sharing shall be one that takes into consideration, not merely the rates received by the individual, but also the attitude he has taken toward the business as a whole. It is therefore necessary that there shall be a rating of men that shall be somewhat independent of the actual wage rate.

Who Shall Share the Profits?

Who shall be made sharers of profits? Not the yard laborer who comes to-day and throws down his shovel to-morrow? Certainly not! Most assuredly, the men higher up in the organization—heads of departments and others who are potential competitors. But these are the very men whose nature demands that they shall work with their best efforts. They do not need this spur, and if opportunity comes to them to connect with some competitor, they will weigh advantages carefully and with their eyes wide open to the difference between a steady salary guaranteed by a responsible house and the questionable advantage of sharing profits with others, whom they may not recognize as their equals.

The men to whom this system should make the greatest appeal are those a little farther down the line in the organization, the men whose training has cost the company a considerable sum, yet who can and will leave to work for a competitor for a small increase in wages. These are the machinists and the better grade workmen in other industries. They are not always well educated and are suspicious of every such move on the part of their employer. If the latter attempts to make his profit-sharing scheme appear to be in any part philanthropy, they will surely sense an attempt at exploitation. Put before this type of worker in its true light, as an inducement for him to stick to his job, it will hold him only after he has seen that his predecessors have received what he considers fair treatment.

The greatest difficulty of all, and the one ever present, is that few businesses pay large profits. By profit I mean net earnings after allowing the stockholders the going rate of interest on their money and a reasonable additional dividend to cover insurance against loss, and also allowing for reasonable salaries to the executives. There are many apparently prosperous businesses that are owned by the manager, whose combined drawing account and dividends do not amount to what he could easily command as a salary. He thinks he is independent and will declare that he never would submit to the exactions of a superior, while as a matter of fact he is daily submitting to more dictation from customers, the people from whom he buys on credit, and his bankers, than he would find as a subordinate in a larger concern. If profit sharing became prevalent, and was appreciated by the men themselves, it would be difficult for non-sharing concerns to hire men at all; and the latter would be forced out of business. However, any method of handling business that would make for stronger and safer credit would be to the advantage of everyone.

Schemes providing for the purchase of stock are not strictly profit sharing. They merely offer to employees certain advantages in the way of investment. They do nothing to increase the staying qualities of the employee, for they either have strings attached so that the employee resells his stock to the company if he leaves, or else the stock purchased is such a minute share of the whole issue that it would be futile for the holder to attend a stockholders' meeting. The ordinary purchaser of small amounts of stock buys as an investment, usually at someone's recommendation, and lays away the certificate. He knows nothing and cares less about the management, unless the time comes for a reorganization, in which case he simply hands his stock over to a committee and takes what is given him in return. In other words, he takes no further interest and has no more say in the management than if he had no financial interest in the concern.

True profit sharing should be a taking of the employee into the company on a basis of partnership. Some believe that the old relationship of master and servant has outlived its usefulness. They would put every man they could into business for himself as one of a large number of co-operators, each drawing a fair share of the profits of the company. Whether this can be done while the wage system is still in vogue is hard to tell. The wage becomes a sort of advance payment made to the workman as a matter of convenience to him, and as a portion of his share of the profits that it is reasonably likely will be forthcoming. Such a view of the matter would require a complete overhauling of our ideas of the relations between employer and employee, so as to place this relation on a basis of mutual trust.

DOMINION ANNUAL CONVENTION, WINNIPEG

Tuesday	Wednesday	Thursday
9th	10th	11th

September

Look for particulars in July Magazine.

PROFIT-SHARING PLANS

Sears, Roebuck & Co., Chicago

A LITTLE more than two and a half years ago there was placed in operation by one of the largest corporations in the United States, Sears, Roebuck & Co., of Chicago, employing between 30,000 and 40,000 of both sexes, a combined savings and profit-sharing plan whereby it was sought to inculcate habits of thrift and reliance among the workers and to engender loyalty and harmony between employer and employee. In fact, the plan went further than this, for the participating employee not only found an ever-increasing sum of money to his credit, but eventually discovered that he was a shareholder in the corporation, with a steadily-growing amount of stock in his name.

The experiment has been watched by sociologists, philanthropists and employers throughout the country. It is an experiment no longer. In the light of a statement just issued by the company, which, on July 1st, 1916, placed in operation the plan whereby the company obligated itself to contribute 5 per cent. of its net earnings without deduction of dividends to stockholders to an employees' profit-sharing fund, the employee to deposit 5 per cent. of his salary, and in no case more than $150 per annum, the plan is an assured success.

While joining the fund is voluntary, and while no employee is eligible to participate in the fund until he or she has completed three years of service with the corporation, it is interesting to note that at the present time 92 4-10 per cent. of all the eligible employees are enrolled. They now have 20,000 shares of the common stock of the company to their credit in the fund, and in addition own 60,000 shares, making a total of 80,000 shares, or more than 10 per cent. of the company's stock.

Julius Rosenwald, president of Sears, Roebuck & Co., and originator of its profit-sharing plan, when asked a few days ago to tell of its progress, said:—

"We are very happy over the results of this profit-sharing, not only by reason of its obvious success, but because of the independent position which it gives to the employee. An employee earning $25 a week would have accumulated after twenty years, on the basis of the last two and a half years' record, approximately $20,000. An employee receiving $50 a week would, at the end of twenty years, have about $40,000 to his credit, and it is estimated that this is the minimum.

"Inasmuch as the fund is invested in the stock of the company and the fund has already acquired more than 20,000 shares out of the

750,000 shares outstanding of the common capital stock of the company, it is not unlikely that in the course of years a majority of the stock will belong to the employees, either to those who have withdrawn their earnings in the fund and have retained their shares which they receive when they withdraw, or to those who are still participants in the fund.

"Under the terms of the plan a participant may withdraw his accumulated savings and profits any time after ten years. An exception to this rule is made in favor of female employees fearing to be married, who can withdraw their profits after five years of service. A further exception provides that, in case of the death of a participant, his relatives or estate receive whatever has accumulated to his credit, regardless of the length of service.

"During the month of January, this year, forty-five young women members of the fund withdrew their savings and profits in order to get married, most of whom might not have been able to marry had it not been for this method of saving. Three times as many young women left to be married in January, 1919, as in any previous January. This undoubtedly is due to so many young men returning from service abroad. These forty-five young women drew from the fund more than $19,000, an average of over $425 each, with a maximum of $644—undoubtedly a very comfortable sum with which to start housekeeping, and probably unattainable save by the provisions of this profit-sharing plan.

"Since the plan was placed in operation, July 1st, 1916, about 500 of our young women have left to be married, and the amount of money they withdrew from the fund aggregated $150,000.

"The Sears, Roebuck & Co.'s employees' savings and profit-sharing pension fund has a total of $3,012,123 credited to its members. Of this amount, the employees contributed $656,299; the balance, $2,355,824, represents the company's contributions, plus dividends on the stock in which the fund is invested. At the present market value the 20,000 shares now held by the fund would show additional profits of considerably over $400,000. This, however, has not been taken into consideration in the above figures, showing a total of $3,012,123.

"Employees are only eligible to become members of the fund after completing three years of service. Up to January 1st, 1919, 92.4 per cent. of all the eligibles were members. This includes factories as well as our main plant and two branches in Dallas and Seattle.

"A fair idea may be gained of the manner in which the plan works out in the case of an idividual by taking an actual case of a member of the fund earning an average salary of $20 weekly during the two and one-half years in which the fund has been in operation.

Such an employee had to his credit December 31st, 1918, $593.52, which was invested in 3 8-10 shares of the company's common capital stock, which, according to to-day's market value, would be worth about $643. This employee contributed $1 each week, or a total of $120, and now has $643 to his credit. In like manner, an employee who has deposited the maximum sum weekly permitted by the terms of the plan, namely, $3 a week, or $150 a year, and who since the plan has been in operation has deposited $375 in the fund, found himself on December 31st last credited with almost eleven shares of the company's common stock, with a value of more than $1,900.

"Employees, not including officers of the company, own outright 53,498 shares of the stock, in addition to the 20,000 shares now held by the profit-sharing fund, and 838 employees are buying on the monthly payment plan 5,731 shares, or a total of nearly 60,000 shares of the common stock. This makes a total of 80,000 shares of the common stock now held by employees, or more than 10 per cent. of the total issue.

"In addition, the company still continues its anniversary cheque plan, and during 1918 distributed among employees under this arrangement $319,000. Under this plan employees receiving less than $1,500 a year, after five years of service, receive on their fifth anniversary a cheque for 5 per cent. of their annual salary. On their sixth anniversary they receive a cheque for 6 per cent., and in the same ratio up to the tenth anniversary of service, when the anniversary cheque amounts to 10 per cent. of the annual salary, and it continues on that basis thereafter."

In a circular just issued to the members of the fund, the trustees —Julius Rosenwald, A. H. Loeb, O. C. Doering, John H. Mullen and Mrs. Allura Rudd Brooker—call attention to the fact that the results of the actual operation of the fund are so far in excess of the estimate furnished when the plan was first announced that they desire to submit a revised estimate showing the amount that may be expected to be realized from the accumulation of profits and savings, based on the experience from July 1st, 1916, to December 31st, 1918. The circular cites the case referred to above—that of a $20 a week employee who contributed $1 a week to the fund for 130 weeks, and who, on December 31st last, had $593.52 to his credit. "It must be understood that this is merely an estimate, but the reasonable expectation is that the results of the past will be continued, and that we may even hope they will be exceeded in the years to come."

The trustees point out that, assuming the profits will continue the same as in the last two and a half years, the results would be as follows for the different salaries and periods named:—

Average Salary Per Week.	Membership Period, Years.	Savings Deposited by Employee.	Total Estimated Accumulation of Savings and Profits.
$15	5	$ 175.50	$ 901.22
	10	370.50	2,648.55
	15	565.50	5,787.53
	20	760.50	11,426.56
20	5	$ 234.00	$ 1,201.62
	10	494.00	3,531.40
	15	754.00	7,716.71
	20	1,014.00	15,235.41
25	5	$ 292.50	$ 1,502.02
	10	617.50	4,414.25
	15	942.50	9,645.89
	20	1,267,50	19,044.26

The amount contributed by Sears, Roebuck & Co. for each $1 saved by an employee is shown by the following table:—

Period.	Total Paid by Company.	Company Paid for Each $1 Saved by Employee.
1916 (half)	$ 412,215.55	$3.09
1917	905,484.04	3.02
1918	1,077,883.19	3.26

The total contributions of the corporation amount to $2,355,824 for the period of two and a half years. The employees in the same time have paid in $656,299.

THE STANDARD OIL PLAN

IN the United States an Industrial Council representing the Standard Oil Company and its 9,000 employees in New Jersey has been created. Through conferences with the representatives of the workmen a system of sick benefits, life insurance and annuities has been established and a plan of medical supervision organized which will ensure that the health of the company's employees will be conserved and their work adjusted according to the physical condition of the individual. Mr. W. C. Teagle, President of the Company, explains that the cost of replacing employees runs from $10 to $300 for each replacement. He speaks of one plant where replacements ran as high as 30 per cent. of employees per month and declares that in the Ford plant at Detroit replacements by various experiments have been reduced from 140 per cent. per annum to 29 per cent. He argues that it is the prospect of poverty in old age and the fear of leaving behind a wife and dependent children which leads men to leave a good place for places a trifle better. He believes that the worker should be maintained out of the active capital and labor of the country and that the provision of insurance and annuities is sound business and sound national policy. "Our company," he says, "has encouraged its refinery employees to elect representatives with whom the management is pledged to deal in all matters affecting wages and working conditions and the remedying of every grievance or possible injustice. Speaking at a joint dinner of the directors and employees, Mr. Teagle said: "The appeal to brute force, the policy of gaining an advantage wherever coercive measures permitted, has been a common fault of all. Industrial peace as well as peace between the nations must depend upon mutual sympathy and understanding between all sections of industry and an equitable division of the proceeds of that industry between the two partners of American business—capital and labor.

System Described

Describing the representative system, Mr. Teagle writes at a later date:—"The representatives are elected from among the men by secret ballot. The whole body of employees at each plant are divided into groups or divisions, with approximately two representatives for each group of 300 or less and with additional representatives for larger groups. These elected representatives are expected not only to take up the grievances of individuals or groups, but to co-operate with the management with reference to all that concerns working conditions in the plant and also the company's relation to living conditions in the community. All such grievances and plans will be considered freely in joint conferences where the number of company representatives will never exceed the number of employees' representatives.

"We believe that these representatives will play an invaluable part in giving the men a feeling that they are a real part of the organization, that they have the company back of them, and that the company is not some unknown, unapproachable power, but consists of men like themselves, with whom they can talk and before whom they can lay their troubles.

"This same principle is carried out in connection with our employment department. We have a list of offences agreed to by the representatives, plainly posted in the works, which sets forth certain definite grounds on which suspension or discharge may be incurred; but nobody can be suspended or dismissed out of hand by any foreman. The foreman merely reports the case with recommendations to the employment department, by which all further action is taken. In the case of offences other than those listed, the first infringement calls for formal warning. The second infringement is reported to the employment department, by whom the man may be suspended, or discharged, or, it may be, transferred, or found wholly innocent. In any case where an employee feels he has been unjustly treated or subjected to unfair conditions, he has the right of appeal, either in person or through his elected representative, to the general superintendent, and right on up to the highest officials of the company, if the regular course of procedure with the foreman and the employment department should fail to bring about satisfactory settlement.

Employees Insured

"In somewhat a similar spirit, our insurance, sick benefits and annuities plan aims to give the employeees a feeling of permanence in their work and a definite place and a definite share in the organization. Every employee of more than a year's standing is insured for a minumum of $500. This insurance is re-adjusted on an ascending scale each year, so that after being in the employment of the company for five years or more, the insurance amounts to 12 months' full pay, with a maximum of $2,000. Employees do not have to undergo any physical examination and all premiums are paid by the company, no tax of any kind falling on the workman insured. Furthermore, the insurance does not necessarily lapse if the employee leaves the service of the company. He can continue his insurance, still without the need of going through a medical examination, by making his own arrangements with the insurance company for the payment of the regular premiums called for on a man of his age. All suspicion, therefore, that his insurance might be unfairly used to hold men in the company's employ is dissipated. In the case of sickness, employees receive half wages during illness for periods ranging from six weeks, in the case of those whose term of service is less than 2 years to 52 weeks in the case of employees of 10 years' service and over.

"We aim to make the wage-earner feel that he is an integral and permanent part of our organization, and to recognize him as such. Just as our interest in him is not limited to the work he does from day to day, so his interest in the company is not limited to his daily wage, but by his loyal service he is building up for himself an assured and increasing share in his prosperity. Capital and industry are partners."

A SIMPLE BONUS SYSTEM

IN April, 1917, the Boeckh Company, Limited, of Toronto, manufacturers of brushes, etc., inaugurated a profit-sharing plan with their employees, which, after nearly two years of operation, has been found to work out most satisfactorily. At the outset the Boeckh Company posted the following notice where each employee could see it, and during the time the system has been in force no changes have been made:—

Payments by Bonus System

"To each of such employees who have been in the employment of the Company for six months or longer, on the 30th September, 1917, a bonus of 6 per cent. on the wages earned by such employee during the six months immediately preceding such date shall be paid on or about the 15th October, 1917, and such bonus shall be paid to each of such employees up to the 31st day of March and the 30th day of September in each year thereafter on the wages earned by the employee for the six months immediately preceding the said 31st day of March and the said 30th day of September, respectively, but no employee shall be entitled to such bonus unless he or she has been continuously in the employment of the Company for six months or more immediately preceding the date on which the same is expressed to be payable.

"To each of such employees who have been in the employment of the Company for not less than three months, but not exceeding six months, on the 30th September, 1917, a bonus of 3 per cent. on wages earned by such employee during the period immediately preceeding such date shall be payable on or about the 15th day of October, 1917; and such bonus shall be paid to each of such employees up to the 31st day of March and the 30th day of September in each year thereafter on the wages earned by such employee for the period in each year immediately preceding the said 31st day of March and the 30th day of September, respectively, but no employee shall be entitled to such bonus unless he or she has been continuously in the employment of the Company for three months or more immediately preceding the day on which the same is expressed to be payable.

"An employee who has been continuously in the employment of the Company for not less than three months and finds it necessary, for good and sufficient reasons, to discontinue his or her employment, and does so with the consent of the Company, shall be entitled to receive payment of the bonus accrued to him or her up to the time of leaving, provided that his or her services have been satisfactory to the Company.

"Any employee discharged by the Company for ill-conduct or for unsatisfactory work done by him or her, or for any cause whatever, shall not be entitled to receive payment of any bonus at the time or after his or her discharge.

"Time lost by reason of being laid off by the Company on account of slackness of business shall not be deducted in determining whether an employee has worked sufficient length of time to entitle him or her to payment of a bonus.

"The Company reserves the right to discontinue the bonus system at any time.

"The Company wishes to impress upon its employees that it is to their interest as well as the interests of the Company to increase the output of the factory, and expects every employee in its service to work well and faithfully in the best interests of the Company and to turn out only first-class work."

INTERESTING SCHEME ADOPTED BY BRITISH CYANIDES COMPANY, LIMITED

(1) That before any sums are set aside in any year for the benefit of the employees there shall be paid:—

(*a*) A minimum wage which shall not be less than the pre-war wage, adjusted from time to time to the cost of living.

(*b*) A minimum dividend to the shareholders of 6 per cent. per annum, free of tax, on the issued share capital of the company.

(2) That for each 1 per cent., free of tax, declared as dividend on the issued capital of the company over such minimum of 6 per cent., and up to a total dividend of 10 per cent., there shall be set aside a sum equal to 2½ per cent. upon the total sum paid during that year in wages and salaries, other than to the directors and managing directors, so that in any year when 10 per cent., free of tax, is received as dividends by the shareholders, there shall be set aside for the employees of the company a sum equal to 10 per cent. of the total sum paid in wages and salaries during that year, and further, that for each 1 per cent., free of tax, above 10 per cent. distributed as dividend there shall be set aside an additional sum of 1 per cent. upon the total wages and salaries.

(3) That when, after payment of dividends at the rate of 6 per cent., free of tax, any portion of the profits are placed to reserve an amount equal to that which would have been set aside, if such profits had been distributed in dividends, shall be placed to a special reserve for the collective benefit of the employees.

(4) That a consultative committee be formed of employees of the company, of whom not less than half shall be workmen, for the purpose of administering the funds thus set aside, and of considering all matters relating to the general welfare of the employees of the company, including the equitable adjustment of the minimum wage to the cost of living, with power to make recommendation to the board of directors.

(5) That suitable machinery shall be established for regulating relations between the board and such consultative committee.

(6) That the general principle governing the distribution of the sums thus set aside shall be to increase the productivity of labor by improving the working and social conditions of the employees, and, *inter alia.*

(*a*) By distributing a portion in cash over the succeeding year, by weekly payments, based upon regular attendance, and by payments periodically as a reward for efficient work, subject to a minimum period of service in the employment of the company.

(*b*) By placing the remainder to a fund administered for the collective benefit of the employees.

This scheme has been working now for over a year in a most satisfactory way, and the consultative committee is proving a great success and very helpful to the management.

PROFIT-SHARING BY EMPLOYEES

BY A. T. DRUMMOND, LL.D.

THE remuneration of the workers in industrial establishments is, as a rule, based on what other industries pay for similar work. It is only within recent years that the important part which it is possible for skilled workmen to take in helping to maintain the reputation of the undertaking, and to build up its profits, has been specially recognized by giving to them, in addition to their wages, some share in the profits, along with the shareholders or partners in the enterprise. In numerous instances efforts have been made to develop a workable plan, and many have been the failures. Some were too complicated for the average man to understand, others taxed his patience for too long a time before the division of profits took place, whilst others required him to take and pay for stock in the undertaking, which in many instances involved a liability and a risk he was not in a position to assume, considering his limited means. He has to be regarded as one of the workers, practically without capital, and yet, as a party most desirable to interest directly in the prosperity of the undertaking. How, then, can his case be reasonably met?

Profit sharing by employees implies that there are profits to share, and that, as these rise and fall or disappear altogether, the return to the employees from them must vary from year to year, or, possibly, occasionally vanish. This is just where it must always be difficult for employers to carry the workers with them. The latter look forward to a definite return for their services, payable at short intervals, and where these services are the same in different years, the contingencies of the market, or mistakes in management, which may diminish or altogether wipe out profits in any year, do not appeal to the workers as properly affecting their wages, or their other interests in the undertaking. This, then, leads to the question whether their share in the profits could not be made an annual charge against revenue, irrespective of the amount of the profits in each year, the larger profits of a successful year being made to bear any excess required for the workers' share in less successful years. On the other hand, the workers' return from profits should properly be in some way proportioned to the services rendered by them, and, under present conditions and as a general proposition applicable to all workers in the industrial establishment, this can only be done by taking wages for a definite period, suggestively a year, as the criterion. It is not possible to gauge the value of the services of the worker who is here to-day and there to-morrow. Thus, the wages earned by an employee in a given year would furnish the basis on which during the next succeeding year a definite percentage upon them would be payable to him out of the profits, in addition to his usual wages. Only employees who had been working throughout the whole, or for a fixed portion, of the preceding year would thus participate in this percentage.

A Suggestive Plan of Profit-Sharing

This leads to a suggestive plan that on the salaries and wages earned by the workers during the previous year a definite dividend of, say, 10 per cent. thereon should be annually given, irrespective of the amount for the year, of the total profits of the firm or corporation, and should be disbursed in quarterly instalments, or more frequently, if desirable. This fixed annual dividend of 10 per cent. might, however, be increased to whatever rate per cent. above 10 was declared in any year as a dividend to the shareholders or partners in the company on their capital. In the working out, practically, of the suggestion, an employee who had earned, for instance, $1,000 last year, would be entitled this year, in addition to his wages, to $100 in quarterly payments, or, if the shareholders' dividend on their capital in the enterprise was 15 per cent., the employee's addition from the profits would be increased to 15 per cent., or $150. Thus the employee could look forward to this return at the end of each quarter, like the interest on a bond. The prospect of an increase in the rate, if profits were large, would act as a stimulus to him in his work, whilst the taking of the previous year's wages as the basis would result in steadiness of work during the current year in order to maintain or increase the basis for the next year. The points aimed at are definite sharing of profits on an easily comprehended plan, prospects of an increase whenever the general shareholder receives a higher rate, frequent distribution, steadiness of work, and stimulus in production, whilst there is the important sentimental effect on the employee of personal interest in the enterprise through sharing in its profits.—From Credit Men's Journal.

WAGE SYSTEMS

THOSE interested in costing (and who is not in these days?) will be well advised not to overlook an instructive article in the Engineering supplement of *The Times*, dated 24th November last. The writer, perhaps, crowds rather too much into too short a space, and is not always as clear as one could wish, but this is probably due to a hankering after what is called "style" rather than any lack of knowledge of the subject under review. The pros and cons of day and piece work, directed and non-directed work, and division of labor, are set out in such a manner as to provoke individual thought, and as this leads to independent treatment, so may problems happily be solved. We endeavor to summarise as follows:—

Day Work.—Simplest method. Work usually not directed. The basis of many systems. Useful for comparative purposes and collective bargaining.

Piece Work.—Usually not directed. Free to use skill in own way. Has disadvantages:

(*a*) Men with good rates may limit their output for fear that rates will be cut if they earn too much.

(*b*) Danger of men earning less than standard wage.

Halsey Premium System.—Guaranteed day-work wage irrespective of output. Time fixed for each job. Premium paid for all time saved, reckoned at a fraction—usually a fourth to a half—of the time saved multiplied by day-work rate. Disadvantages: Same temptation to employer to cut rates as piece-work presents.

Rowan System.—Meets objection in Halsey system by calculating the premium not as a fixed fraction of the money value of the time saved, but as that value multiplied by the ratio of the time saved to the time spent.

F. W. Taylor's System. (Differential piece-work).—First assumed responsibility for the *manner* in which work was done. Workmen must follow instructions implicitly. Pecuniary benefit links up these. No guaranteed day money. Each job paid for on a standard time, and one of two rates:

(*a*) Low rate for all work beyond standard time.

(*b*) High rate for all done in or below standard time.

Disadvanatge: Weeds out all but "first-class men." Taylor contends that those not "first-class" in one employment will find another in which their natural aptitude will advance them to that position.

Gantt System (Task and Bonus).—Guarantees day money. On attaining given output an agreed fraction, added as bonus, of the money value of the bonus credited to the workman on the job, multiplied by the ratio of his output to the standard output. Equivalent to Halsey's system, except that it is used for directed work, and bonus increases more rapidly with increase of output.

Emerson's "Efficiency Plan."—Same as Gantt's system except as to bonus. Taking a man's efficiency to be measured by the ratio of the time spent on the job to the standard time, a schedule is prepared for each class of jobs, showing a fixed bonus in money per hour of each efficiency. Schedule begins with an efficiency of, perhaps, 67 per cent., on which a very small bonus is reserved and rises by intervals of 1 per cent., the bonus accelerating with each increase up to a large figure for about 100 per cent., efficiency. Efficiency is reckoned monthly over all jobs to prevent slacking. This also prevents a man from being discouraged on any individual job on which he has made a bad start.—From "The Accountant."

DRAWING OF "BAD CHEQUES."

Credit men and the business community in general have a special interest in a new amendment to the penal law of New York State. The measure, which went into effect September 1st, 1918, may be termed the "bad cheque" law. Briefly, the amendment provides that a person who, with intent to defraud, draws a cheque on a bank, knowing that he has not sufficient funds in or credit with such bank to meet the cheque, shall be guilty of attempted larceny. If money or property is obtained from another through the device of issuing such a cheque, then the drawer is guilty of larceny. The fact that payment is refused by the drawee depository because of lack of funds or credit shall be prima facie evidence of intent to defraud and of knowledge of insufficient funds in or credit with such bank, unless the maker shall have paid the drawee the amount due thereon, together with interest and protest fees, within ten days after receiving notice that the instrument has not been paid by the drawee. The word credit as used in the amendment means an arrangement or understanding with the bank for the payment of the cheque, draft or order.—Bradstreet's.

WHAT IS THE "WHITLEY REPORT?"

A. E. MIDDLETON HOPE

ALTHOUGH this report was widely circulated and gladly concurred in by both capital and labor in the British Isles in 1917, very little notice seems to have been taken of it on this side of the Atlantic. An article on labor conditions in the official publication of the Canadian Chartered Accountants, published in January, finished up with the query, "What is the Whitley Report?"

In March, 1917, the British Government named a Commission, under the chairmanship of the Right Hon. J. H. Whitley, M.P., to enquire into the relations existing between the employer and employee. Between March and October of the same year this report was submitted to the government in three parts, and the findings were accepted as a basis for the reconstruction of industrial relations by Prime Minister Lloyd George.

In view of the present world-wide unrest amongst the workers, and the fact that the Whitley Report provides a practical solution for the industrial unrest, the essential features of that report should be known by every employer and employee on this continent, because it requires no clairvoyance to realize that a change is coming in human relationships, international in its scope.

The Whitley Report recognizes that the demand for a higher standard of life (body, soul and mind) is at the basis of Socialism, Bolshevism and Syndicalism, and the plans advocated dispose effectively of all the anarchistic and militant features of the different parties and utilize the good points of existing machinery, such as the Trades Unions and the Employers' Unions. It takes the organizations of capital and of labor and unites them by a band of mutual interest and purpose, thus changing these two powerful aggregations of class interest from an attitude of suspicion and antagonism into one of mutual esteem and co-operation.

This report recognizes the limitations of State control of the machinery of production; that because of the growing international status of capital, legislation designed to restrict and unduly control capital would cause capital to seek unfettered investment elsewhere; that the fundamental requirements of any better relations is that labor shall become more efficient or it cannot receive more than it is now getting; that capital must go on accumulating in order to provide investment in the machinery of production to ensure employment for the growing population; that the incentive to thrift must still be security and a fair return; that brains are necessary to management and must be suitably rewarded; that brawn is just as much an investment in industry as capital or management, and must be accorded a return commensurate with its zeal and energy.

This report realizes that the elevation of the composite intelligence of the mass of workers must be raised, so that their intelligence may be directed to the improvement of the methods and tools they use so as to increase output or efficiency; in other words, so that the growth of invention and skill shall result in the production in a shorter time than is now generally being done of the needs of existence for every twenty-four hours.

It recognizes that competition without universal minimum standards would enable unscrupulous competitors to prevent the maintenance of decent living; it renders impossible the undermining of industrial standards, and it realizes that international standards must be raised before the best good can accrue to the workers of any nation.

Briefly, the plan is to organize each industry into Works Committees, District Councils and National Councils, all working along similar lines, bringing together the representatives in each industry of the Trades Union and Employers' Union. The object is to undertake the continuous consideration of matters affecting the progress and well-being of each trade from the point of view of all parties engaged in it, consistent with the general interest of the community.

Two basic aims are sought: the one will apply to the equal enforcement of standards throughout each trade; the other will secure co-operation by granting to the workers a greater share in the consideration of matters affecting their employment.

The following is a brief summary of the findings:—

1. Better utilization of the practical knowledge and experience of the workpeople.

2. Means for securing to workpeople a greater share in and responsibility for the determination and observance of the conditions under which the work is carried on.

3. The settlement of the general principles governing the conditions of employment, including the methods of fixing, paying and readjusting of wages, having regard to the need for securing to the workpeople a share in the increased prosperity of the industry.

4. The re-establishment of regular methods of negotiation for issues arising between employers and workpeople with a view both to the prevention of differences and to their better adjustment when they appear.

5. Means of ensuring to the workpeople the greatest possible security of earnings and employment without undue restriction upon change of occupation or employer.

6. Methods of fixing and adjusting earnings, piecework prices, etc.
7. Technical education and training.
8. Industrial research and the full utilization of its results.

9. Facilities for full consideration and utilization of inventions and improvements designed by workpeople, and for the adequate safeguarding of the rights of the inventors and designers of such improvements.

10. Improvements of processes, machinery and organization and appropriate questions relating to management and the examination of industrial experiments, with special reference to co-operation in carrying new ideas into effect, and full consideration of the workers' point of view in relation to them.

11. Proposed legislation affecting the industry.

DOMINION ANNUAL CONVENTION, WINNIPEG

Tuesday	Wednesday	Thursday
9th	10th	11th

September

Look for particulars in July Magazine.

ENGLAND.

I see her not dispirited, not weak, but well remembering that she has seen dark days before; indeed, with a kind of instinct that she sees a little better in a cloudy day, and that in storm of battle and calamity she has a secret vigor and a pulse like cannon. I see her in her old age, not decrepit, but young, and still daring to believe in her power of endurance and expansion. Seeing this, I say, All hail! Mother of nations, Mother of heroes, with strength still equal to the time; still wise to entertain and swift to execute the policy which the mind and heart of mankind require at the present hour, and thus only hospitable to the foreigner, and truly a home to the thoughtful and generous, who are born in the soil.—Emerson (1856).

THEORY OF THE DOUBLE-ENTRY SYSTEM

By W. A. Paton

(From The Journal of Acountancy)

MANY rules and explanations of debit and credit have been given which are fairly serviceable. Ingenious schemes of personification of accounts are used to answer the questions: When and why do we debit? When and why do we credit? But it is difficult to find a statement of the whole question which does not involve figurative language and more or less inconsistency. The theory of double-entry is not well understood. The rules-of-thumb guiding the bookkeeper (which do not get at the fundamental relations involved) are inadequate; and it is partly because of this lack of a thorough understanding of the principles of their technique that accountants tend to become lost in the maze of minutiæ necessarily connected with bookkeeping, which takes care of business procedure as complex as it is to-day. Bookkeeping and accounting are not identical—bookkeeping is largely the recording of facts, accounting involves analysis and interpretation—but sound bookkeeping practice is essential to sound accounting practice; hence the importance of a thorough understanding of the fundamental principles of bookkeeping technique.

The explanation of the theory of double-entry as it will be given in this paper lies in the very nature of the facts which bookkeeping records, and can be made without the aid of figures of speech, such as the personification of accounts. What are the facts that are recorded in the books? The important unit of organization with which accounting deals is the business firm. The "set of books" in which the bookkeeper records the data are the books of a single concern. Let us take an hypothetical business, the A. B. Co., at its inception, and analyze the facts which its books must show, both at the outset and after operations have begun. In this analysis of facts the theory of double-entry will be developed.

The A. B. Co. organizes. What are the facts necessary to a statement of the company's financial status? Clearly, one important category of facts embraces all the property items to which the A. B. Co. has any title. If we are to know anything about the condition of this company, obviously we must have a complete statement of property. This property might consist not only of many different kinds of tangible goods, but also of valuable services, rights, franchises, patents, etc., and claims against other parties of various sorts. Materiality is, of course, no test as to what is or what is not property, either from the standpoint of the business firm or from that of the industrial community; and this fact is recognized, both in business practice and in economic theory. These various kinds of property may be listed or classified very minutely, or they may be stated under a few heads. As to how far the property items shall be subdivided is purely a matter of expediency, depending upon the character of the enterprise.

Suppose the property of the A. B. Co. consists of: Buildings, $130,000; real estate, $60,000; furniture and fixtures, $30,000; merchandise, $80,000; cash, $20,000. Then the financial statement of the firm must show this list of property, and the items may be stated in any convenient way. We will list them in a column, one below another, thus:—

Property

Buildings	$130,000
Real estate	60,000
Furniture and fixtures	30,000
Merchandise	80,000
Cash	20,000
	$320,000

Does this list of facts give us a satisfactory statement of the condition of the company. No, this is clearly inadequate from the standpoint of the interests of the A. B. Co., a probable purchaser of the business, the public or anyone concerned. We must know whether the A. B. Co.'s title to this property is clear. Are there any incumbrances? Where is the distribution of ownership? Or, more concisely, what are the equities in this property? The equities, like the property items, may have a variety of forms. The A. B. Co. may own all the assets clear, or the company may have only a small net interest in the property, and the greater part of the ownership may be vested in outside claims, such as bonds, mortgages, notes payable, accounts payable, etc. Suppose the claims against property in this case consist of: bonds, $100,000; notes payable, $20,000; and the A. B. Co.'s equity, $200,000.* These facts may be listed in a column, as was done in the case of the property items. The column of items representing the equities may appear in any convenient way, below the column representing property or opposite to it, as:—

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*This last item is usually called proprietorship; and in the case of a corporation is represented by capital stock, less the deficit, if one exists, or capital stock, plus real surplus accounts if any such exist.

Property		Equities	
Buildings	$130,000	A. B. Co.	$200,000
Real estate	60,000	Bonds	100,000
Furniture and fixtures	30,000	Notes payable	20,000
Merchandise	80,000		
Cash	20,000		
Total	$320,000	Total	$320,000

This balance sheet form of presenting the statement of a company's financial condition is a lucid and concise way of showing the necessary facts, but is not the only method. The essential thing is to have all the facts presented and set down in the most intelligible form; and from every point of view it appears desirable to separate in some way the two distinct categories: property and equities. One writer has observed that the balance sheet is the "ground-work of accountancy."† Certainly the balance sheet represents a classification of facts which is the basis of the double-entry system.

It is apparent that these two classes of facts, property and equities, will always be numerically equal, for they are merely different aspects of the same thing. We have one class of objective things to deal with, namely, the property items. In one case we are listing the actual property; in the other case we are looking at the same property, but are noting certain ideal facts representing the legal relationships between this property and certain individuals or interests—that is, we are representing now the distribution of ownership or the claims against property, or, more exactly, the equities in property. And since we are using the same measuring unit, the dollar, in stating both classes of facts, we have numerically equal totals. It is customary to denominate one list of facts assets or resources, and the other class liabilities, and no great harm need result from this nomenclature. However, it might be urged that the term liabilities has the connotation of debts or outside obligations, and this meaning clearly does not apply to the proprietor's equity.

If instead of assets and liabilities, property and equities were used, there would be less danger of misunderstanding and bad accounting practice. But there is little hope of changing usage that is so well established as are these terms; and, indeed, there is little necessity for the change, as the distinction just noted between outside obligations and proprietorship, while of great practical importance in certain connections, is not fundamental.

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†Sprague, "The Philosophy of Accounts," page 26.

Under these two heads, then, all the data necessary for an accurate statement of the company's financial status at its inception may be listed; and the sum of the property items is always equal to the sum of the rights-in-property items, or equities. Further, this inevitable equality is the foundation of the double-entry system. Here is the origin of the equality between debit balances and credit balances.

There are apparent, though only apparent, exceptions to this statement in accounting practice. In bookkeeping, addition is substituted for subtraction wherever possible. This is done by adding the amount to be subtracted in any case to the opposite side of the same or some account. This procedure secures neatness and economy of effort, and there are in many cases special reasons for maintaining original figures. For example, it is convenient to keep capital stock on the books at par. If a company is financed through the issue of securities at a discount, this will mean that the nominal (par) value of the securities is greater than the value of the property received. Then if this par value is recorded as an equity, the extent to which the equity is overstated is indicated by including the amount of the discount among the property items.

Another exception is found in the case of insolvency. Here the book-value of the equities may be greater than the value of the property, and the difference (a deficit) is included in the property items to indicate this fact. Wherever a business is dissipating its assets through losses and still maintains the proprietorship at the old book-value there is a similar situation.

It might be urged that we are here setting up an equality that is not grounded in any logical classification of facts, but is rather artificially maintained by including among the so-called equity items highly dissimilar things. It might be insisted that proprietorship and outside equities show no relationship; that proprietorship is what the company is worth, and other liabilities are what it owes; that proprietorship is elastic and outside claims are rigid. Now it must be admitted that there are differences between the various equities in property, and for some purposes distinctions must be drawn between them. (For that matter, we are drawing distinctions when we give them different headings.) But that there is also a fundamental relationship cannot be denied. Capital stock, bonds, mortgages, notes payable, and even general creditors' accounts, all represent rights in the property. Undoubtedly, there is a sense in which the stockholder is the owner par excellence, for stock ownership carries with it the large elements of direct control and risk; but the bondholder has contingent control and can also properly be thought of as an owner. This fact is beginning to be clearly recognized in railway and other permanent properties, where we find the specialization of securities fully developed. In recent railway receiverships and re-organizations it is evident that the stockholders, the bondholders, and even the general creditors are thought of as owners. At least it is recognized that they all have rights in the property, and that the differences between their various claims are differences in degree and are not fundamental distinctions. Certainly, anyone would admit that the property items form a legitimate classification—yet what sharp differences exist between notes receivable and buildings, or between patents and machinery!

The financial statistics of a business enterprise can thus be listed in two fundamentally distinct and numerically equal classes—property and equities; and, as was stated above, the essence of the double-entry system of keeping accounts consists in the separation of the members of the equation—property equals equities—and the maintaining of this equality. With this equation as a basis, a convenient and intelligible system for ordering and presenting the necessary facts is built up; and—as will appear—an important characteristic of this system is the test of arithmetical accuracy which it gives. The explanation as to how the double-entry system is built up from these basic classifications will now be undertaken.

The hypothetical A. B. Co. desires to commence operations. It will be well at this point to consider briefly what the operation of a business means—or should mean—to the accountant. An equipment of property—physical property, such as land, buildings, tools, raw material, etc., and services, such as ordinary labor, managerial capacity, etc.—is incorporated with the particular services of the proprietor and other equities and results in a flow of product—commodities or services—which is sold to the consuming public. Continued production of this commodity or service can be secured only at the expense of constant decay, replacement and change among the property elements involved. In other words, there will always be a continual shifting among the property elements as business proceeds. Similarly, in the facts of ownership, a process of shifting will be taking place: the amounts and character of the equities will be changing from time to time. (The only exception would be the case of a business which paid no debts and contracted no new obligations during a given period, whose operation resulted in neither profit nor loss.)

It is evident that the accounts of a business should be so constructed as to record conveniently these changes which occur on both sides of the fundamental equation. It would be possible to follow these changes simply by altering in the proper direction the property and equity items as they appear on a tabular financial statement such as was given above; and when new kinds of property were secured or when new equities appeared, these new headings could be listed in the same way. An obvious objection to this procedure is its inconvenience—the fundamental objection is that accounting statements so constructed would throw little light on the business process, and it is an axiom of accounting that a knowledge of the historical as well as the synoptic situation is highly important if the accounts are to meet the needs of the different interests involved.

It will be necessary, then, to extend the above financial statement of the A. B. Co. so that space will be available for the recording of the transactions which may affect the original amounts. This virtually means the opening of an account for each kind of property and for each equity, thus:—

Property		**Equities**	
Buildings.		A. B. Co.	
$130,000.			$200,000.
Real estate.		Bonds.	
$60,000.			$100,000.
Furniture and fixtures.		Notes payable.	
$30,000.			$20,000.
Merchandise.			
$80,000.			
Cash.			
$20,000.			

Let us analyze the transactions which may occur—first as to the effect on property accounts. Clearly, property items may be affected in two ways: a property balance may be either increased or decreased; there may be additions to property or there may be subtractions or withdrawals from property. A bookkeeping practice already referred to is the substitution of addition for subtraction wherever possible to avoid the inconvenience of subtraction and to preserve original figures. Accordingly it will be desirable to have two separate columns under each property heading: one for the additions or positive items, and one for the subtractions or negative items. Now, how shall we arrange these columns? Shall we preserve the positive items at the left and the subtractions at the right, or vice-versa? The answer to this question is not at all a matter of principle—either arrangement will serve as well as the other. In the tabular statement of property and equities given above, the property items were set at the left and the equity items at the right.

This is the arrangement followed in this country. The essential thing is the separation of the two classes of facts; the arrangement after the classification is made is a matter of little importance. But if we decide to have left stand for property balances and right for equity balances, it will be necessary in the positive and negative columns under each property heading to use the left-hand column for additions and the right-hand columns for subtractions, in order to preserve positive property balances at the left. This is the essential feature of any ledger account: two columns, one for additions and one for subtractions, and custom decrees that in property accounts the left shall be used for additions, the right for subtractions.

Similarly, transactions affecting the equity items may result in either increasing or decreasing an equity balance. Consequently, each equity account has need of two columns, a positive column for additions and a negative column for subtractions. What shall be the arrangement of these columns? Again the answer is that the arrangement is an arbitrary matter, the only essential principle in constructing the ledger accounts being the preservation of the fundamental classes, property and equities; and, since we have decided to keep positive property balances at the left and equity balances at the right, it will be necessary in the positive and negative columns under each equity heading to use the right-hand column for additions and the left-hand column for subtractions.

The scheme of the construction of the ledger accounts in their relation to the fundamental classifications can be represented thus:—

The A. B. Co.

Property.		**Equities.**	
Additions.	Subtractions.	Subtractions.	Additions.
Buildings.		A. B. Co.	
$130,000.			$200,000.
Real estate.		Bonds.	
$60,000.			$100,000.
Furniture and fixtures.		Notes payable.	
$30,000.			$20,000.
Merchandise.			
$80,000.			
Cash.			
$20,000.			

Thus far it appears that we arbitrarily list all property balances on the left-hand side and all equity balances on the right-hand side, and the fact should be emphasized again that the only important consideration controlling the construction of ledger accounts is the separation of positive and negative items and the maintenance of the classification represented by the equation: property equals equities.

Now, have we here all the accounts necessary to record the transactions that may take place when the company begins operations? It was stated above that it is useful for the accountant to conceive of the business process as the combination of a more or less considerable variety of commodities and services with the peculiar service of the proprietor for the purpose of producing some other commodity or service for sale. Now it is obvious that, even in the case of a retail concern such as the A. B. Co., where the productive process is physically simple, there necessarily will be involved commodities and services other than those the company now has on hand. Labor power is necessary in practically all productive processes; certainly the A. B. Co. will be obliged to purchase labor from time to time if operation is to proceed. The services of insurance and advertising will doubtless be secured; it will be necessary to buy stationery, fuel and light. The number of types of such commodities and services required, of course, will depend upon the character of the business.

The question arises: How will accounts with labor, fuel, etc., fit into the scheme of ledger accounts thus far outlined? These items are examples of what are commonly called "expense" accounts, and they are frequently grouped in a special ledger. Now what is the nature of these items? As there is some confusion on this point, it will be necessary to answer these questions with considerable care.

Nearly all these expense-ledger items fall into the general category, property. (There are some pure expense accounts which will be noted later.) This is fairly obvious in the case of such tangible items as fuel, stationery, etc. Coal in the bin is just as good property as showcases and other fixtures. Further, as was noted above, the concept of property covers material and immaterial items. This fact is too patent to need further elaboration. Hence labor power, the service of insurance, the service of capital, the service of advertising, and so on, are all property items. They are all wealth in the economic sense, and they are all considered property by the business man. They cannot be considered as decay or expiration or loss of property. When the business man buys labor power and pays cash he does not think of the payment as a loss. He expects to receive a value equivalent to his expenditure, as in the case of buying a machine, a building or any item of physical property. Valuable services are as truly property items as valuable commodities.

There is a simple way of proving that this is also the business man's and the accountant's way of looking at it. If one approached the owner of a business with the idea of buying him out, what would the prospective seller include in a statement of his property? Certainly coal in the bin and stationery on hand as well as merchandise, fixtures, etc., would appear in that statement. And, further, if any labor services, insurance services, advertising services or any valuable services or rights have been purchased but are not yet consumed, or from which the benefit has not yet been received, you will find the business man including them as part of his property. And this is also the accountant's viewpoint, for, in making up a statement of property from the books and an inventory, all balances representing so-called expense items not consumed will be included among the assets—exactly the same procedure as is followed in the case of buildings, machinery or any property item. (In some kinds of business the large part of the assets consists of such balances.)

Then, if these accounts represent property, why call them expense accounts? Possibly the term expense is not a good word to apply to such accounts, but there are practical reasons for distinguishing these items from other forms of property, and it is no part of our purpose to obliterate the distinction. Distinctions may well be observed for certain purposes, similarities for others. It cannot be urged too emphatically that, as far as the theory of debit and credit is concerned, there is no distinction whatever between property accounts and these expense accounts. And much of the confusion concerning the principles of debit and credit comes from overlooking this point of logical classification. The difference between buildings and coal is not that the one is property and the other expense or property consumed—the only line that can be drawn is the relative permanence of the former as compared with the latter. The coal in the bin may be largely consumed in a month; the building may last twenty years. The coal is a current, transitory asset; the building is of a more permanent character. The distinction made in economic theory between circulating capital and fixed capital is practically the same distinction.

Strictly interpreted, the word expense should mean actual decay, dissipation or consumption of property. The amount of coal that is consumed is an expense—an expiration of property. But so also is the extent to which the building depreciates in a certain period an expense. Expirations of property are expenses; all balances left on hand are property.

Let us suppose that the following headings comprise all the assets of this transitory character that will be used by the A. B. Co.: labor, fuel, insurance, stationery—there would be others, but these are sufficient for illustrative purposes. According to the above analysis, accounts would be opened for these items in exactly the same way as for any property items—the left-hand columns being used for additions, the right-hand columns for subtractions, thus:—

Additions.	Subtractions.

Labor.

Fuel.

Insurance.

Stationery.

These transitory property accounts are sometimes considered as subdivisions of the proprietor's account on the ground that the net result of all expenses and all gross incomes is finally embodied in proprietorship. But this is not an entirely accurate conception. Additions to property are not expenses, but the expirations of property (strictly speaking, it is the net expiration of property that is not consumed in paying debts that forms expense or gross deduction from proprietorship). Then, if any property accounts are to be considered as subsidiary proprietorship accounts, all property accounts must be so considered, for one expiration of property is as much an expense as any other.

In case of a service that is immediately consumed as delivered it might be urged that it is more logical to conceive of the item as a pure expense or a gross deduction from proprietorship than to consider it property. But there are two reasons why it is more reasonable to consider even such an item as property. In the first place, any valuable service is logically property as it is purchased. Further, since payment dates do not coincide with delivery dates, we are continually meeting with accrued items, i.e., we frequently find such accounts representing property balances, such as wages prepaid, insurance prepaid, etc. It should be observed that occasionally for brief intervals such accounts may represent rights against property rather than property. For example, if at the end of the accounting period after the inventory is taken the labor account were to represent wages unpaid and nothing else, then the labor account would be for the moment not a property account, but a rights-in-property account. Such a situation would be theoretically possible in the case of any property account.

The A. B. Co. will doubtless have certain accounts which do represent expense and nothing else. A common example of such an account is accrued depreciation, which represents expiration of property value in the more permanent property items. An item of depreciation represents, in the first place, a subtraction from property. It represents further a gross deduction from proprietorship because of its destination. Then, when depreciation is entered as a subtraction from property and then as an addition to a separate account, we have an account which may be considered as a subsidiary equity account. Hence an addition to a depreciation account forms a gross subtraction from the proprietor's equity account, and since the left-hand column is always used to record subtractions from equities, we must use the left-hand column of the depreciation account for entering the items of depreciation. All accounts which represent expense and nothing else can be shown to have this same relation to the general scheme of accounts.*

The opposite of the expense account, which represents gross subtractions from proprietorship, is the revenue account, which represents gross additions to proprietorship. The original proprietorship account could be used to record all items of expense as subtractions and all items of income as additions.† But in practice this is not done, because such a procedure would not throw the business process sufficiently into the limelight. Consequently, expense accounts and revenue accounts are kept, and after being combined in the expense and revenue sheet the net result is carried to the proprietorship accounts. We will suppose that the revenue accounts of the A. B. Co. are merchandise profit from the sale of goods and rent from a portion of its buildings.

Theoretically, any property or any equity account may have a subsidiary account. Whenever we desire to take special cases of subtractions from either a property account or an equity account and set up such subtractions in a separate account we have an account which simply represents part of the main account, or is, in other words, subsidiary to the main account. Such accounts are usually called "off-set," or "valuation" accounts. There is nothing about any such accounts that invalidates the explanation of the double-entry system thus far outlined. Each valuation account is so constructed as to preserve the balance of the main account, be it a property or an equity account, in the proper column. Such accounts are further illustration of the bookkeeping practice of adding instead of subtracting. The need in particular cases for preserving original figures is the legitimate excuse for such a procedure. Common examples of such accounts are reserve for bad debts, an off-set to the accounts receivable, and deficit, an off-set to the proprietor's equity.

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*Cf. Hatfield, "Modern Accounting."

†Strictly speaking, expense and revenue items are gross deductions from and gross additions to the equities in general. It is illogical to include distributions of net revenue to outside equities among the expenses. Proprietorship is used here as representative of all the equities because of its importance in this connection.—W. A. Paton.

Let us summarize the discussion thus far by representing the completed scheme of accounts in its relation to the fundamental classification:—

The A. B. Co.'s Ledger Accounts.

Property.

Additions.	Subtractions.

Buildings.

$130,000.	

Real estate.

$60.000.	

Furniture and fixtures.

$30.000.	

Merchandise.

$80.000.	

Cash.

$20,000.	

Accounts receivable.

	Reserve for bad debts.

Labor.

Fuel.

Insurance.

Stationery.

Equities.

Subtractions.	Additions.

A. B. Co.

	$200,000.

A. B. Co. (current).

Accrued depreciation.	Merchandise profit.
Other expenses.	Rent.

Bonds.

	$100,000.

Notes payable.

	$20,000.

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*No attempt is made to make this list of accounts complete. Enough accounts are shown to illustrate the various cases that may occur.

To complete the above analysis let us suppose a few typical transactions.

1. Three hundred dollars in cash is paid for fuel. This illustrates a common type of transaction. One kind of property is consumed and an equal value of another kind of property is received in exchange: there is a subtraction from one asset and an equal addition to another. Proceeding in the way that has been outlined, an entry of $300 must be made in the right-hand column of the cash account and an equal entry in the left-hand column of the fuel account. Thus we have two equal entries in opposite columns, and the original equality between property balances and equity balances is undisturbed. If the A. B. Co. found that it had too large an investment in fixtures and sold for cash $1,000 of such equipment at cost price we would have another illustration of this type of transaction. It would be recorded by a right-hand entry of $1,000 in the furniture and fixtures account and an equal left-hand entry in the cash account. Such transactions obviously affect only one of the fundamental classes —property. They are all recorded in this way.

2. The A. B. Co. is planning some purchases and borrows $5,000 from the bank on a sixty-day note. Here property is increased, and at the same time an equity, notes payable, is increased: an addition to the cash and an equal addition to notes payable. We would then have a left-hand entry of $5,000 in the cash account and an equal right-hand entry in the notes payable account. Again, we have two equal entries in opposite columns, and the equation—property equals equities—is maintained. The opposite of this transaction would be: the A. B. Co. pays a note due with cash $1,000. Here we have a decrease in property, cash, and an equal reduction in an equity, notes payable. Hence, we would have a right-hand entry in the cash account and an equal left-hand entry in the notes payable account. All transactions of the type which involve an addition to property and an equal addition to equities, or a subtraction from property and an equal subtraction from equities are recorded in this way.*

3. A transaction may involve a transfer from one kind of equity to another. For example, the A. B. Co. issues new bonds to the extent

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*Whenever property is consumed in business operation a left-hand entry is made in an expense account (subtraction from equities) and a right-hand entry in the property account (subtraction from property). All such transactions accordingly come in this group. In practice it is not feasible to make such entries as they occur, but only at certain periods (e.g., it would hardly be possible to record the daily consumption of coal or the daily depreciation of buildings). In the case of extraordinary expenses such subtractions might be regarded as net deductions from equities.—W. A. Paton.

of $5,000 in exchange for $5,000 of outstanding notes payable. Here we have a subtraction from one kind of equity and an equal addition to another equity. The transaction would be recorded by a right-hand entry of $5,000 in the bonds account and an equal left-hand entry in the notes payable account—again two equal entries in opposite columns.

4. A transaction may involve some combination of the above types. For example, merchandise which cost $8,000 is sold on account to various parties for $10,000. One kind of property, merchandise, is reduced to the extent of $8,000, and another kind of property, accounts receivable, is increased $10,000. The difference, $2,000, represents merchandise profit, a gross addition to the A. B. Co.s equity. There would be a right-hand entry of $8,000 in the merchandise account and a right-hand entry of $2,000 in the merchandise profit account and a left-hand entry of $10,000 in the accounts receivable account. (In practice merchandise and merchandise profit are combined, and we have what is called a mixed account. The two are separated here to facilitate the explanation.) Again we have equal entries in opposite columns.

Although there may be a great variety of combinations of the above cases, these illustrations cover the fundamental types of transactions possible. It will appear from the foregoing that every transaction is two-sided, i.e., there is always an equal right-hand entry for every left-hand entry, and vice-versa; hence the original equality between the sum of the left-hand (property) balances and the sum of the right-hand (equity) balances is continually maintained. This constant equality furnishes an important test of numerical accuracy.

In practice the left-hand side of all ledger accounts is called the debit side and the right-hand is called the credit side. Is there any inherent reason for this nomenclature? Is there reason for listing property balances on the debit side and equity balances on the credit side? In nearly all explanations of double-entry bookkeeping an attempt is made to attach the significance of the words debtor and creditor to the terms debit and credit as used in modern acounts, and much confusion has undoubtedly resulted. As used in personal accounts, these meanings can with reason be applied. For example:—

John Jones
(in account with the A. B. Co.)

Dr.	Cr.
$500	$100

Here the debit and credit headings in the opposite columns may be thought of as having real meanings. Jones is debtor to the A. B. Co. for the amounts listed in the debit side and creditor of the A. B. Co. for the sums listed in the credit side. But the terms debit and credit are applied to the left and right columns respectively of all accounts in the double-entry system, and the moment we try to attach any such meaning to debit and credit elsewhere than in personal accounts we are in difficulty, no matter how ingeniously we employ figurative language and continually shift our viewpoint.

It has often been urged that the proper standpoint from which to look at the accounts of a business is that of the proprietor or proprietorship; and this is in many ways a helpful conception. Undoubtedly one of the purposes of accounting is to show proprietorship and the process whereby changes in proprietorship are brought about. But if we look at the accounts from this standpoint there is no possibility of attaching uniform significance to the terms debit and credit. For in property and outside equity accounts, debit (meaning additions to property and subtractions from equities) represents facts favorable to the proprietor, and credit (meaning deductions from property or additions to outside equities) represents facts unfavorable to the proprietor; while in the accounts which represent the proprietor's equity in any of the subsidiary proprietorship accounts, debit (indicating subtractions) represents facts unfavorable to the proprietor, and credit (indicating additions) represents facts favorable to the proprietor. This is an illustration of the impossibility of attaching the significance of debtor and creditor to the terms debit and credit as used in modern accounting.

The only view that can logically be taken must be of the facts with which the books deal. We have two fundamental classifications —property and equities. We desire to record the flow of facts and still maintain the separation of these two classes. The accounts are built up to meet this need. Debit and credit are conventional terms used to designate left and right columns on the ledger page.* Nothing is to be gained but confusion in attempting to attach any special meanings such as debtor and creditor to these terms.

Summary

The double-entry system of keeping accounts is founded logically in the nature of the facts with which accounting deals. These data consist fundamentally of the two classes, property and equities (rights in property). These two classes are always numerically equal, for one class consists of the objective items of property, the other class represents the situs of the ownership of this property, and the same measuring unit is used in both cases. The essence of the double-entry system is the separation of the members of the equation—property equals equities—and the maintenance of this equation. Thus the double-entry method is more than the mere recording of facts. The first step in the interpretation of data is made in the forming of the two fundamental classes.

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*Cf. Hatfield, "Modern Accounting."

Business operation means a constant process of shifting in both property and equity items. Property expires, is replaced, is exchanged. Any property item may be increased or reduced. Similarly, the process of change will mean increases and decreases in specific equity items. Accounts with the various items of property and equities are built up to record these changes. The important characteristic of any ledger account is two columns, one for additions, the other for subtractions.

Arbitrarily, we decide to maintain property balances in the left-hand column and equity balances in the right-hand column. Therefore, in property accounts the left-hand column is used for additions, the right-hand column for subtractions; and in equity accounts the reverse is true. The only principle controlling the arrangement is the maintenance of the original equation.

A complete system of accounts will usually embrace property items of a relatively permanent character, such as buildings, and numerous kinds of property of a transitory character, such as coal. Further, in order to keep the business process clearly in view, subsidiary equity accounts will be needed: (1) Those accounts representing pure expense or gross deductions from equities, and (2) those accounts representing income (which embody the sale of the services of owners) or gross additions to equities. Finally, almost any account may have a subsidiary valuation account when for any reason subtractions or off-sets are entered in a special account rather than in the proper column of the main account.

All possible transactions can be classified under four heads: (1) One property is exchanged for an equal value of another property; (2) an increase or decrease of property takes place through an equal increase or decrease of equities; (3) an equity is exchanged for an equal value in another equity; (4) a transaction may involve some combination of the above. In any of these cases equal entries in opposite columns are made for every transaction. Consequently, the original equality existing between left-hand balances and right-hand balances is maintained. An important advantage of the double-entry system is the test of numerical accuracy afforded by this constant equality.

The left-hand side of any account is called the debit side; the right-hand is called the credit side. The simplest rule for debit and credit is based directly upon the fundamental equation: debit additions to property and subtractions from equities and credit additions to equities and subtractions from property. The terms debit and credit as used in modern accounts have no other important significance.

THE USE OF PERCENTAGES IN ACCOUNTS

BY MR. W. CRAWFORD YOUNG

IT is generally acknowledged to-day that business is a science and that it is governed by definite laws and principles. As Gorgon Graham said: "The fundamental principles which govern the handling of postage stamps and of millions are exactly the same." To live within one's means, to keep within the success-limits in the matter of stock, employment, running expenses, interest charges, etc.; are among the most telling factors in business achievement. As to how one is to know where such limits are to be placed, the seeming intricacy of modern accounts with their mazes of figures would seem to defy all accurate calculation, leaving one to resort to guess-work. But there has been discovered a method of treating these accounts, whereby all the necessary information can be obtained, a method so explicit, so searching in its revelations, and yet so simple, that it is employed now in all the most important transactions of the business world. I refer to the system of percentage calculations.

It is my intention now to exhibit, in as interesting a manner as space will allow, and in a connected sequence, how percentage calculations can be profitably employed from the simplest right up to the most complex business matters. For that purpose I will briefly consider the use made of these calculations by a successful retailer in the solving of some of the business problems of his career.

The simplest use made of percentage calculations is in the stock accounts of the small retailer, by which, working on a standard rate of profit, he is enabled to calculate his gross profits and, adding on stock at commencement and purchases and deducting sales, to calculate the amount of stock on hand.

Following the principle further, the careful retailer also works out a series of monthly trading and profit and loss accounts, showing in addition the percentage which each item of cost or expense bears to the total sales. The comparing of these over a period soon enables the retailer to work out a series of average percentages, showing him the weak and the strong points in his trading expenditure. He may find, for instance, that his advertising expenditure and bad debts are excessive. From the average percentages, then, he proceeds to work out a series of ideal percentages to aim for in succeeding periods, and the measure of his success is evidenced in constantly improving balance sheets.

So great is the retailer's success, indeed, that in the course of a few years he enlarges his shop, dividing it into several departments, each under a departmental manager. It so happens that the goods in some departments bear different rates of profit to those in others, so the retailer now finds it necessary to keep departmental stock accounts, with a column for each department. In the same way he proceeds to make out a monthly departmental profit and loss account on a percentage basis. These he uses not only to check up the operations of one department from month to month, but also to check one department with another in the expenses of running them. Thus he very soon discovers any laxity in management, overbuying, or any useless expenditure. With these departmental accounts also he works out a series of ideal percentages, enabling him to guide the departmental managers most helpfully to the successful conduct of their departments.

Our successful retailer now decides on launching out further afield, and makes a start by opening out branches in three of the larger provincial towns. He has now abundant information to go on as to what is a reasonable apportionment of a given amount of capital on stock, fittings, etc., and also as to what is a reasonable expenditure for wages, rent, advertising, and other trade expenses, on that amount of capital. Therefore his branches are started on thoroughly sound lines. Carrying out his system, he requires the branch managers to send him monthly returns of all their dealings, these returns covering more details than those of the departmental accounts, but the general principles being the same. By comparing one branch with another, he steadily arrives at the ideal percentages to be aimed for by them all, endeavoring as far as possible to keep his capital at its full earning capacity and to keep the expenditure down as low as possible in comparison with the turnover.

Still looking for fresh fields to conquer, our retailer now decides on entering the manufacturing field, and makes arrangements accordingly to set up a large factory for the manufacture of a staple line of goods. His object in doing so is twofold, first, to manufacture on a large scale for the purpose of supplying wholesalers, second, to be in a position to tender for large government and private contract for the supply of these goods. In this position he is faced with new problems, requiring for their solution the most careful classification and exhaustive calculations of the expenditure in every department of the factory. How can he ensure that his factory will be run on such a basis as will make certain that the price of his manufactures compares favorably with that of competing lines and also that everything entering into the cost of management and distribution is taken into account in making up the selling price, so that a net profit may result? The result of his deliberations is the discovery that certain expenses vary according to the time taken on the job, as rent of factory, rates and taxes, salary of factory manager; other expenses vary according to the amount of wages paid, as depreciation of machinery, motive power; other expenses vary according to total prime cost, as general office expenses. Thus he finally arrives at a series of percentages to be added to the prime cost of each job for machinery on-cost, factory on-cost, general on-cost, and lastly, a further percentage for the very necessary profit. On paper, the system is perfect, but it is evident that as a large part of the on-cost is merely estimated, the scheme may be theoretically profitable, but actually very much the reverse. Therefore it now behoves the manufacturer to check up the estimates with actual expenditure, which is done at the first annual balance. In the light of these actual figures he discovers such facts as the following, that the amount allowed for depreciation of machinery is too small, that there is undue wastage of material in manufacture, that one, or two items of office expenditure had been omitted from general office on-cost. So he revises his scale of percentages and during the course of the next years has the satisfaction of knowing that his factory cost system is financially sound and profitable.

Unfortunately "the best-laid schemes of mice and men gang aft agley," and our manufacturer discovers to his sorrow at the end of the second year that in spite of his perfect costing system the actual results are far short of what might have been expected. On the face of it, everything had been done as required, and all calculations had been made correctly. However, on making up his annual trading and profit and loss accounts in percentage form and comparing them with those of the previous year, several percentages are found to be unusually high, notably those of travellers' commission, discount, bad debts, and that the percentage of gross profit is low. Naturally he enquires into the reason for these things, and his investigations reveal a very sad state of affairs, nothing more or less than a cunningly devised scheme of fraud and misappropriations on the part of one of his most trusted clerks. But the percentage calculations have proved one too many for the scheming clerk. Thus, by hard experience, does the manufacturer have forced upon his notice how invaluable are percentage calculations in safeguarding his operations. It has been said that no system is absolutely proof against fraud, but when percentage calculations are used, in as complete a manner as possible, no fraud can continue for any length of time without the results of it showing up in the percentages and causing attention to be directed to it.

Our retailer and manufacturer is now a power in the business community, yet, being still unsatisfied with his conquests, he seeks to enlarge his field of action by buying up some of his competitors. In the state of affairs brought about by his energetic methods, many of his competitors are only too glad to get out while there still remain a few pounds they can call their own. So our capitalist has a sufficient choice of businesses offered to him, and at once sets about finding out which are the most profitable ones for him to buy. Profit and loss accounts and balance sheets are confidentially submitted to him by the various businesses, and on these he brings the searching light of the percentage analysis to bear, with most satisfactory results. The scheme of comparison which he has drafted out is a most thorough one, designed to show which is the soundest business financially, which is the most economically run, which has the most opportunities for quick profits. A comparative table of the different businesses is drawn up, showing alongside one another such percentages as that of fixed capital to floating capital, of floating assets to floating liabilities, of reserve to capital. In closer detail are such percentages as those of repair to cost of buildings, of repairs to cost of plant and machinery, of bad debts to book debts, of factory and management expenses to output. There is no gainsaying the fact that after arriving at these percentages and comparing each business on that basis, our capitalist has a great check on the comparative profitableness of each business as an investment, and on the face of it it would seem that he has before him all the evidence necessary to a decision. But such is not the case, there is still remaining a further step in the investigations.

This further step consists in the investigation of the annual accounts of each business for, say, five years back, with a view to discovering how far one may rely on the continuance of the profits as revealed by the last year's balance sheet or to what extent these profits are exceptional. The sets of accounts of each business are now re-arranged on a uniform basis and a whole set is made up to show the results of the five years side by side, with a percentage column for each year, showing the percentage of each item of cost or expense to the turnover, forming what we might call a comparative percentage of profit and loss account and balance sheet. As it happens, the results show that it has been well worth while to go to such trouble, because in the case of one business, the last year's accounts are found to be most strangely better than those of previous years. It is quite evident that on the basis of last year's figures this business is a most attractive investment, but the results of previous years somehow cast doubt on the genuineness of the figures. Once again the percentages are the detectives that discover the fraudulent state of affairs, and that in no uncertain fashion, fraud that is clever, but not clever enough to beat the percentages. To mention only a few of the items, it is discovered that book debts bear an unusually high percentage to turnover, resulting from fraudulent sales being put through; advertising is remarkably low, caused by starving the business to show big profits; repairs and renewals show a tremendous reduction from those of previous years. This latter is discovered to be due to charging them up to plant and machinery and fittings accounts, thus increasing the apparent assets. The gross profit is unusually high, and this is found to be caused by putting the sale of fittings through the trading account, such fittings, it is also noted, being still shown as in the possession of the business. Needless to say, our capitalist is very canny about accepting anything as fact from this business without thorough investigation. However, on the results shown by two of the other businesses, he negotiates for their purchase, which he accomplishes in due course. And there, in the height of his prosperity and power, we will leave him.

Before leaving the subject, I shall now consider briefly the fundamental use made of percentages in the accounts of companies manufacturing single classes of goods, where all items of cost and expense are worked out at the ratio which they bear to the unit of output. Examples of such accounts are those of collieries, the unit being the ton of coal; papermakers, the unit being the pound of paper manufactured. In order that the results should be of practical value, it is desirable that the unit selected be one which, as far as possible, varies directly with the periodical variations of cost. In the case of gas works, it is found desirable to use two distinct units, so that the imperfections of one basis may to some extent be compensated by the advantages of the other, such units being per ton of coal carbonized and per 1000 cubic feet of gas sold. In the same way electric light works use two units, per ton of coal used as fuel and per 1000 units of electricity sold. This is unquestionably the most scientific way in which to deal with such accounts, embodying the maximum of information with the minimum of figuring.

Thus, in following the development of a business and in considering certain manufacturing concerns, we have exhibited to us a bird's-eye view of the immense importance of percentage calculations in widely varying circumstances. We have seen its use in keeping a grip on expenses, in checking the returns of subordinate managers, in working up costing system for factories, in detecting frauds, and finally in investigating the accounts of businesses for the purpose of true valuation. In every case have the percentage calculations enabled one to arrive at a result with greater speed, and with greater certainty of its accuracy than under any other known method. Such being the case, it is surely to the advantage of everyone dealing with accounts to use such an invaluable help to the utmost, using it not only in as many circumstances as possible, but also at as frequent periods as possible. It is undoubtedly true, that other things being equal between two competitors, the one who makes full use of percentage calculations will invariably forge ahead of the one who does not.—From Accounting and Commerce.

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ESSENTIAL FEATURES IN A REPORT FOR CREDIT PURPOSES*

By R. H. Leamy

IN preparing a report for credit purposes, the accountant should have constantly in mind the fact that he is being relied upon to furnish the data from which the banker or prospective creditor can arrive at a decision as to whether or not it is reasonably certain that the borrower's paper will be met promptly at maturity; or, in case any unexpected and unforeseen contingency arises which temporarily delays payment at maturity, whether or not the final discharge of the obligation can be depended upon. If accountants would keep this idea constantly before them, there would be a noticeable improvement in the statements prepared by them for credit purposes.

In a report for credit purposes, the items on the balance-sheet should, of course, be segregated under appropriate captions, the assets generally coming under the headings "fixed assets," "current assets" and "deferred charges to profit and loss" and the items on the right side generally falling under the headings "capital stock" or "partnership accounts," "bonds" (or other long time obligations), "current liabilities" and "reserves." While other captions appear on the balance-sheets coming before the busy banker for his scrutiny and attention, the foregoing include the items ordinarily found and to which our attention will be confined in this article.

As the banker's principal thought in deciding on the desirability of a loan is the certainty or lack of certainty of its repayment, it naturally follows that his attention will be first directed to the current or quick assets and that they will be subjected to a close scrutiny and investigation. The term quick assets includes cash and such other items as can presumably be quickly turned into cash, such as inventories of material and merchandise, bills and accounts receivable, securities owned, etc.

With respect to the inventory, one of the first things the banker will be interested in knowing is whether or not it is the result of a physical count. If a physical inventory was taken, was the method followed such that the results can be depended upon? Or if book records were relied upon in making up the figures, upon what basis have the stock records been kept and how trustworthy are they?

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*A thesis presented at the May, 1918, examinations of the American Institute of Accountants.

Another important point to be considered is the basis adopted in pricing the various items listed. Are they at cost or market and what is the approximate variation between the two? It is a comparatively easy matter to arrive at the unit cost of various items of raw material and merchandise purchased ready or practically ready for sale, but in the statements of a manufacturing company, there will appear goods in process and finished stock, and here the question immediately arises as to whether or not the concern maintains an adequate system of cost records and, if so, just what items are being included as part of the cost of manufacture.

Has the inventory been inflated by including therein items which cannot fairly be considered part of the cost, or, as is sometimes the case, is there profit included? Has the clerical work in compiling the quantities and in extending and adding the sheets been rechecked? Overstatements or understatements of inventories by substantial amounts frequently result from simple errors in calculation. To illustrate a case in point, a clerk's error in misplacing the decimal point in the unit cost of an item resulted in an overstatement of the inventory by about $140,000.00.

Another matter of very great importance is whether there is obsolete or damaged stock included in the inventory. Changes in style or in the product occur rapidly in certain lines of business and in the statement of such a concern this point should be looked into carefully.

It goes without saying that the report should state if any portion of the stock is subject to a lien or is pledged as security for the payment of any debt, if there are any consigned goods included, and whether or not the liabilities have been taken up for all goods inventoried.

Next in order come the bills receivable. What proportion of them can we reasonably expect will be paid when due? Are there included therein some which are either wholly or partly valueless and which will have to be extended from time to time as they mature and eventually be settled by compromise? Are there any which are past due or have already been renewed one or more times? Are they all notes of trade debtors taken in the ordinary course of business, or do some represent advances or loans to employees, officers or subsidiary concerns, or notes accepted in payment of equipment or fixed assets disposed of, or even of capital stock sold? It is a well-known fact that in certain lines of business the more valuable customers buy only for cash or on open account, settling promptly at maturity, and that notes are taken only from customers who are "slow pay." Dealers in farming implements frequently accept notes payable in instalments over long periods and this, if found to be the case, should be covered fully in the report. A manufacturer of one variety of farming implements, dealing directly with the farmers, accepts in settlement of goods sold the purchasers' notes payable in instalments over periods of from two to four years.

It will readily be seen that all of the foregoing queries have a distinct bearing on the value of the bills receivable as a current asset and unless the points mentioned are carefully inquired into and reported on by the accountant, the value of his report to the banker will be seriously affected.

Practically all the foregoing remarks regarding bills receivable apply also to the item next on the balance-sheet—accounts receivable. These must be carefully scrutinized for bad, doubtful and overdue items and a sufficient reserve must be provided. Prospective allowances in respect of discount, freight, etc., must also be estimated and provided for.

Are there included any personal accounts of officers or employees, any advances to allied or subsidiary companies, or any open accounts of any substantial aggregate in respect of the sale of items outside the concern's regular line of trade? As regards advances to officers or allied concerns, numerous instances can be cited where such accounts are carried along from year to year without any effort being made to collect them. Are there any debits on account of uncompleted contracts on which payment cannot be expected until the contracts are completed, or are any of the accounts in the hands of attorneys for collection?

The geographical distribution of the accounts should also be looked into, as it will readily be seen that if a substantial portion of a firm's debtors were located in one section of the country and business in that section happened to be adversely affected by a crop failure, hurricane or other calamity, the creditor's concern would be in line to suffer a substantial loss on account of bad debts.

Advances to salesmen to cover traveling and other expenses should be shown separately, if they aggregate any substantial amount.

The details of the items comprising the open balances of the various accounts should be looked into, as instances are numerous where the current charges are settled promptly as they fall due, leaving old items in dispute unpaid.

Frequently accounts receivable are sold to discount companies or are hypothecated as security for loans, and in such cases it is highly probable that the best of the accounts has been taken. Do any of the debit balances represent memorandum charges covering consigned merchandise? In the ordinary course, such accounts do not become current assets until the consignee has disposed of the goods. Do one or two accounts make up the greater part of the aggregate outstanding? In this case the failure of one of these large debtors would seriously cripple the applicant from a financial point of view.

From the foregoing it will be seen that there are many questions affecting the value of bills and accounts receivable when considered from the viewpoint of whether or not they are quick or current assets. Next to cash on hand, it is to these two sources that the banker must first look for a repayment of his loan, and it will be seen, therefore, that a thorough inquiry into these two assets is of vital importance in an examination for credit purposes.

Surplus funds of the applicant may have been temporarily invested in securities which can be quickly disposed of and such items should, of course, be included among the current assets. Securities purchased to obtain an interest in or control of other companies and which are of more or less value to the applicant, aside from the interest thereon, should not be classed as current assets. The report should give a list of the securities and state whether carried at market or cost and if at the latter, how it compares with the market value. If market prices are not available, the approximate value should be given, based on the latest available reports of the companies in question.

On seeing the item "cash in bank and on hand" in a balance-sheet with no further comment thereon, the banker is justified in assuming that the funds are available for disbursement as required, and the accountant should satisfy himself regarding this question. Frequently moneys are deposited under a special arrangement whereby they are not to be withdrawn for a stated period, say ninety days, and, furthermore, deposits in banks are frequently tied up by liens filed against the deposits, in which case the amounts may not be available for months.

Was the amount shown as "cash in office" represented by actual currency or cheques at the date of the balance-sheet, or was it principally I. O. U.'s?

The accountant should satisfy himself that the total of the cash in banks and on hand is normal for the particular concern, having in mind the nature of the business conducted and business conditions generally. It frequently occurs that a substantial cash balance is built up in anticipation of heavy disbursements to be made, such as dividends to be paid, and that what was a satisfactory balance in the bank on, say, December 31st, may dwindle to almost nothing on January 2nd.

While the banker will look first to the current assets for a repayment of his loan, in case of an insufficiency of these, he will have to fall back upon the fixed assets along with the other creditors, provided there are no prior claims on these properties. The report should cover, in a general way, the assets of this nature, stating whether or not they are subject to mortgages, etc., and whether or not they are being maintained in an efficient condition. The accountant should satisfy himself that only actual additions and improvements have been capitalized and that proper provision is being made for depreciation. A point of particular interest to the banker is whether the properties involve heavy carrying charges without any corresponding increase in the income.

The deferred charges at the date of a balance-sheet are of no particular interest to the banker. They should be looked into in a general way, however, to insure that the current year's operations are charged with the proper proportion of such items.

Current liabilities consist generally of bills and accounts payable and accruals for salaries, wages and other charges falling due in the near future.

The report should subdivide the bills payable into at least four classes: notes sold through brokers, notes discounted at the applicant's own banks, notes given in settlement for merchandise and raw materials purchased and notes given to individuals, such as officers, stockholders, employees, etc. Needless to say, the report should state the approximate amount falling due each month subsequent to the date of the balance-sheet, together with the interest rates. Information should be given, also, as to the amount of notes of similar classes outstanding at various dates in the past, as this is of value to the banker in determining whether or not the applicant is generally dependent on borrowed funds for the conduct of his business and how near the limit of his credit he may be at the moment.

Notes to officers, stockholders, employees, etc., should be inquired into carefully as they may possibly be secured by liens on some of the assets. Of course, special mention should be made of the fact in case it is found that any of the notes or other liabilities are secured by liens or mortgages on any of the assets, as well as of the fact that notes have been given for purposes outside the ordinary business of the applicant, if such is found to be the case.

The accounts payable should be covered in the report in about the same way as the bills payable. If there are particularly large items in the list, these should be looked into and commented on. The accountant should also satisfy himself that all accounts payable and other liabilities applicable to the period under review are taken up in his accounts.

Reserves covering liabilities actually incurred and falling due within a reasonable time should be included among the current liabilities, and reserves for depreciation, bad debts, etc., should, of course, be deducted from the assets to which they relate.

Long time obligations, such as bonds, mortgages, etc., should be investigated and commented on, as they are generally secured by a mortgage on the fixed assets at least and sometimes may be a lien on the current assets. Furthermore, it is quite possible that some of these liabilities fall due in the near future, and in any event the interest falling due regularly is a current liability. If the provisions of the mortgages securing such liabilities are not being complied with, the fact should be reported.

An important point frequently overlooked in reports for credit purposes and one of decided interest to the banker is that of contingent liabilities. Liability on account of notes discounted, endorsements for allied or subsidiary concerns, accommodation endorsements, liability on contracts for the construction of buildings, purchase of equipment or raw material, and similar matters come under this caption. These should be covered fully in the accountant's report, as they have a decided bearing on the desirability of the loan from the banker's point of view.

A good illustration of the importance of such items is the case of a concern manufacturing farming implements, which recently reported at the year-end current liabilities of about $500,000,00. On going through the contract file, however, it developed that contracts had actually been signed prior to the year-end for additions to plant and equipment involving an expenditure of some $800,000.00, the work to commence in the immediate future.

A profit and loss account should be submitted with the income and expenditures classified under appropriate captions, and, if possible, this statement should show the operations for at least three or four years, arranged in comparative form. If comparative figures for several years are submitted, the accountant must satisfy himself that the figures for all periods are prepared on the same basis. Instances are frequent where concerns make a liberal provision for depreciation, etc., in prosperous years and reduce, or even eliminate, the same item in lean years. Occasionally, a basis of inventory valuation is adopted differing materially from the basis used the year before, and some concerns show a tendency to charge to capital during lean years items of a nature which are absorbed in operating expenses during prosperous years.

Increases or decreases in the sales should be looked into. A recent investigation of a manufacturing concern disclosed a substantial increase in sales when compared with the operations of the preceding year, but on closer investigation it was disclosed that the increase was due entirely to the fact that large orders had been received from two new customers. Had this new business not been obtained, the sales for the last year reported upon would have shown an actual decrease.

The foregoing remarks include some of the more important points to be covered in a report for credit purposes. However, each individual case has its peculiar features which must be looked into and reported on, and the accountant must keep in mind at all times the fact that the banker is relying upon him to disclose all the material facts in the case.—From The Journal of Accountancy.

AN INEFFICIENT ARTICLE ON EFFICIENCY

BY H. J. RUSSELL,
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PROBABLY an inefficient article has no place in a magazine devoted to better business procedure, but I believe I have two valid reasons for the choice of the adjective. In the first place, conspicuous ability is required of one who can really do justice to such a subject as is here introduced; and, in the second place, I must admit that I have neither collected nor organized sufficient material to enable me to discuss the matter as completely as I could wish. Although I hope at a later date to present for the consideration of the retailers some practical suggestions born of the efficiency idea, it is not my purpose at this time to tell anyone how to do things more efficiently. I would prefer, with your indulgence, to discuss the word "efficiency" itself. What is it? What does it mean? Is it an old idea in a new dress? If applied, will it make a man's methods seem foolish? Is it an upstart trying to tell an experienced man how to run his business? Can it be studied as an isolated factor? Does it cost money? Will it show a profit? Is it hard to learn?

The Dictionary Says—What?

Well, what does the dictionary say? Here is a brief definition, and one which, I think, is among the best I have seen: **Efficiency—Power of producing the effect intended; competence for one's duties.**

Against this, place the definition given by a writer of popular business articles: Efficiency—Getting the best results and the most happiness with the least amount of work and waste.

There are several score more definitions, but with these two we can make a start. Perhaps, on second thoughts, I may be permitted to add a definition of my own: **Efficiency—A name for the new-old virtues of honesty and commonsense.**

The word was one that was gaining in strength and popularity for several years before the war, and, of course, it gathered great impetus upon the outbreak of the conflict, because Germany and efficiency were commonly supposed to be synonymous terms. The mistake that Germany made, however, is the mistake that many people are making to-day. They are treating efficiency as an isolated factor. Herein lies the danger; there can be no true efficiency unless it is accompanied by and interweaved with high ideals and sound principles of education. That efficiency which, without taking into account surrounding factors, aims merely at a swifter way of doing things, is the kind of efficiency that leads eventually to its own destruction, brought about by the desire that it breeds to determine and to dominate regardless of the interests of the weak.

Efficiency Worth While

But there is an efficiency that is worth while. Note the ideas of Nicholas Murray Butler on the subject:—

"These five characteristics, then, I offer as evidence of an education:—

"1. Correctness and precision in the use of the mother tongue. 2. Refined and gentle manners, which are the expression of fixed habits of thought and action. 3. The power and habit of reflection. 4. The power of growth. 5. Efficiency, or power to do."

This, then, is the true idea. Deal with efficiency as a fact in itself, to be taken by itself, and you are on dangerous ground; but mix with it a little charity, a measure of compassion, some refined and gentle manners, and even an element of humor, and you will have at your command a further instrument for the improvement of human conditions.

Efficiency as applied to business education is emphasized in an interesting fashion by Mr. Warren, the author of "Thoughts on Business," who says: "The man who desires to be well informed in regard to any line of business should bear in mind that there are two ways of learning a thing: by chance and by conscious intention." Later, the same writer outlines his ideas of the four fundamental accomplishments, and they are commendable for the brevity of their completeness:—

1. How to think accurately and comprehensively. 2. How to express thought in talking and writing. 3. How to work skilfully with the hands. 4 How to take one's place among men.

Word "Efficiency" Overworked

To some extent the word "efficiency" has been overworked and brought into disrepute, obviously because self-styled efficiency experts have been too eager to apply their theories to conditions which they would not fit. It really is a good word, however, and at present I think it has reached the stage where it is being laughed at. This is the most hopeful sign, because it is a fair proof that there is something in the idea. There are many who find it more convenient to ridicule efficiency rather than investigate it. They have, somehow, an uneasy feeling that an investigation applied to their business on the principles of efficiency may lead to something unpleasant. They are not quite sure what, and so they would rather leave it alone. As a matter of fact, things are not as bad as we think they are. The true efficiency man is always an optimist, and his method is not the method of revolution, but of evolution and adaptation.

As a closing thought, I give you the words appearing on the cover of a recent number of an efficiency journal: "The ratio of achievement to effort is the true measure of efficiency." Perhaps it is, but mix with it, if you please, a little of "the quality of mercy."
—From Credit Men's Journal.

PRACTICAL POINTS ON FINANCIAL INVESTIGATIONS*

MR. F. W. PRIEST,
Incorporated Accountant

MR. Priest said: The subject upon which I have the pleasure of addressing you this evening, "Practical Points on Financial Investigations," occurred to me as one which would be of interest to you and might lead to some useful discussion. Until I commenced to prepare this paper I did not realize how difficult it would be to do full justice to the subject and keep within the limit of time allowed for its delivery; however, I have endeavored to deal with as many points as possible.

I propose to divide the subject under the following heads, viz.:—

(1) Investigations generally.
(2) Preliminary considerations.
(3) Practical points.

Investigations Generally

The matters which are submitted to professional accountants for investigation have considerably increased during the last twenty years. They cover a fairly wide range of practice, and have become an important branch of professional work. The classes of investigation which occur most frequently are those brought about by changes of proprietorship, admission of a partner, or the purchase or sale of a business. No prudent business man would put capital into a strange concern without first obtaining the opinion of an expert accountant as to its state of affairs and a general report on the business. Perhaps the best proof of the wisdom of this is that quite a large percentage of such investigations result in negotiations falling through, and generally as a consequence of the investigating accountant's report thereon.

It is sometimes disappointing to one's own client when matters terminate so, but it is better for him to know that his loss is limited to the amount of his accountant's fee, than risk his money in a concern which is not sound.

Another class of investigation which before the war happened quite frequently was for the purpose of certifying the profits of concerns about to be converted into limited companies.

Then there are investigations in regard to income tax matters, amalgamations, defalcations; also those arising from shareholders and debenture holders being dissatisfied with the results of the trading or management.

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*A lecture delivered at a meeting of the Incorporated Accountants' Students' Society of London.

Meetings of creditors, Friendly Societies, beneficiaries under wills, Board of Trade and many others provide work for the investigating accountant.

Investigations in regard to general office and even works organizations and costing systems are occasionally met with.

Since the war many accountants have been occupied on investigations of businesses under the "Trading with the Enemy Act." These are instituted by the Board of Trade, and are for the purpose of ascertaining whether the proprietors (generally of German or Austrian extraction) have been directly or indirectly trading with enemy countries since the outbreak of war.

Preliminary Considerations

It is important to clearly understand in whose interests one is acting, the nature of the certificate or report, and for what purpose it is required. The period of investigation will, of course, depend on circumstances and instructions.

In is not unusual for accountants to be consulted on this point, in which case the object in view and nature of the business must be considered. Also whether the books have been properly kept and balanced, and if balance-sheets and trading and profit and loss accounts have been regularly made up; if so, by whom, and whether they have been audited. Also whether the accounts have been specially drawn up for the occasion.

With a knowledge of these particulars it may be possible to decide whether the work will entail much or any checking or preparation of accounts.

Another important factor is time. It sometimes happens that a report is wanted quickly, and it is left to the accountant to satisfy himself by testing and verifying figures as best he can. All these points have to be borne in mind, and also that the period should terminate at the latest possible date.

The scope of the work will necessarily vary in different cases, even though the period be the same. Much depends on the state of the books.

In cases of defalcations and falsifications of accounts the period and scope of the work can only be ascertained by actual examination of the books and consideration of any special circumstances attaching to each individual case.

Practical Points

Suppose we take for example an investigation on behalf of a client who is about to purchase a business or a partnership where the goodwill is to be or has been valued on the basis of a number of years purchase of net profits. We will assume that accounts have been prepared, and your instructions are to examine the books and make a general report.

The trading accounts should be thoroughly tested for the periods under review by applying percentage tests to all items on the debit side making up the turnover, or in the case of a manufacturing concern the output also, and it is a good plan to prepare a comparative statement of the percentages so that each year under review can be studied, and any variations revealed, and if deemed necessary explanations sought for.

The last year or period should receive particular attention, and if any substantial increase in the rate of gross profit be shown the stock and the sales must be closely scrutinized.

The stock prices at the end period should be compared with the prices of the previous year's stock, and a few actual invoices here and there examined in order to test the valuation. Also note if a fair allowance has been made in respect of any old stock.

In the case of a manufacturing concern particulars should be taken of any oncost added to own manufactured stock and work in progress, and compared with the cost accounts if any are kept. Note if any goods on approval have been included in stock and also how such transactions have been dealt with in the books. I have known instances where goods on approval have been included in the stock and also in the book debts. This should be guarded against by inspecting the approval book and ledger accounts, to satisfy oneself that double value has not been taken. In some cases it is arranged that the stock be valued by an outside expert valuer.

The sales should be examined and, if thought necessary, checked to the personal accounts in the sales ledger, with a view to satisfying oneself that the transactions are all *bona fide*. Goods sold just prior to the ending date should receive attention as to whether they were delivered before stock-taking; if not, see that any such goods are not included in the stock. It is quite easy for a mistake of this kind to be made.

It is also as well to examine the returns books to ascertain if any substantial items have been credited to customers' accounts since the date of the last period. Explanation must be obtained for any such items. Fictitious inflation of sales is sometimes adjusted by fictitious credit for returns.

It should be noticed if all trade discounts have been provided for.

A comparative statement of sales is also useful.

The profit and loss account must be examined in detail and note made of any variation in the administration expenses, and that all proper charges have been included in the accounts, whether paid for or outstanding. The question of proper provision for bad and doubtful debts must be gone into. To do this it is advisable to examine the ledger accounts and ascertain the dates when all debts outstanding over a certain amount, according to the magnitude of the business, were made, and note any that in your opinion should be reserved. It is also a good plan to examine the bad debt account and to note the percentage of bad debts on the turnover.

Note whether proper depreciations have been written off.

Adjustments may have to be made in certain circumstances, where, for instance, the premises are owned by the proprietors and no rent is charged in the accounts, in which case the Schedule A assessment on the premises is usually added. And, where partners' salaries or drawings have been charged, these should be deducted from the expenditure, although it may be necessary to substitute a sum for management.

The average credit given and received should be ascertained, and it is as well to obtain the number of customers on the books and if the business done is well distributed over the connection.

The balance-sheet, if it is a matter of proposed partnership, should receive attention as to the financial position and the margin of working capital in the business, and whether there are sufficient realisable assets available to meet the liabilities at their due dates. The effect of any proposed new capital in regard to financial position should be noted. These are important features, as many firms with quite substantial surplus of assets over liabilities are continually and sometimes seriously embarrassed by the surplus not being sufficiently liquid. No business can be considered as in a satisfactory financial position unless there are sufficient liquid assets to provide for the discharge of liabilities as they fall due. Every effort must be made to ascertain that all liabilities have been disclosed; if any doubt on this point it is advisable to obtain a formal declaration, and in some cases it may be necessary for a declaration as to private liabilities.

Always make a point of substantiating transactions by documentary proof where possible, and never be put off the scent of something you may suspect by any plausible explanation of some interested party.

As regards investigations under the Trading with the Enemy Act, as already mentioned, these are for the purpose of ascertaining whether the concerns selected by the Board of Trade for your attention have been trading directly or indirectly with enemy countries or whether any cash has been remitted since the outbread of war. These inquiries, or inspections as they are termed, involve a searching examination of correspondence as well as the books, invoices, statements cheques, contracts and any other documents.

Special attention should be directed to the correspondence and invoices, and the books inspected for suspicious transactions, missing pages and erasions. Sometimes a very trifling matter will lead to important disclosures. It is really the small clues that one should be on the alert for, as it is very unlikely that transactions of any magnitude would be openly dealt with in the books.

When making a report on an investigation study well your instructions, and always be most careful to state exactly what you have done, setting out clearly what adjustments you consider necessary to the accounts and your reasons, and if you have not been able to satisfy yourself on any particular points they should be mentioned. Any statements made in a report of this kind should be, as near as possible, statements of facts.

Always be courteous, tactful and cautious in the conduct of your work and careful of not being led into premature expressions of opinion. It is not necessary to discuss matters with the parties whose books you are examining except for the purpose of obtaining information for your report, subject, of course, to any special instructions. When the work is finished it is your client who is entitled to receive your opinions first hand.

In my opinion investigation work constitutes a very severe test on the abilities of the accountant; all his knowledge of affairs are needed in a greater degree than in ordinary audit work. It is not a case of merely checking, vouching and balancing accounts. To be a really expert investigator one needs a wide business experience, with a thorough technical knowledge of how to read and criticise balance-sheets and accounts. To one possessing such qualifications this branch of work is intensely interesting.—From The Incorporated Accountants' Journal.

It is as impossible for a human being to be happy who is habitually idle as it is for a fine chronometer to be normal when not running. The highest happiness is the feeling of well-being which comes to one who is actively employed doing what he was made to do, carrying out the great life-purpose patterned in his individual bent. The practical fulfilling of the life-purpose is to man what the actual running and keeping time are to the watch. Without action both are meaningless.—Orison Morden.

DOMINION ANNUAL CONVENTION, WINNIPEG

Tuesday	Wednesday	Thursday
9th	10th	11th

September

Look for particulars in July Magazine.

ORGANIZING AN OFFICE.

J. C. Blair.

1. Make a list of the names and present duties of each clerk and stenographer as they now operate.

2. Diagram this work in logical order and in the proper sequence of clerical functions.

3. Consider the present methods and facilities for performing such work, and see if it can be simplified, shortened, or in any way facilitated by the introduction of modern mechanical devices.

4. Try to equalize the amount of clerical output per diem. Some clerks will be found to turn out far more work than others. This may be due to imperfect organization and unequal assignment of duties, difference in ability, lack of individual training, conditions of health, inconveniences in the location of the desks, files, etc., any or all of which should be remedied as required.

5. Plan to avoid as far as possible the interruptions caused by overloading with special demands clerks who are required to turn out *regular* work on schedule time. Every office must plan to take care of these special or emergency clerical operations, but it should be done by leaving one or more general utility clerks or stenographers with good clerical capacity partially free from regular demands.

6. Arrange comprehensively in diagrammatic form the outline of all office work to be done, showing in logical sequence the sources from which it originates, the definite responsibilities of each clerk and the disposition of his daily clerical output.

7. Plan for definite responsibility. Concentrate the work in as few hands as possible. If a large number of clerks review and re-handle each other's work, each doing a small part but with nobody finally responsible, merely passing from one to another a never-ending succession of requisitions, invoices, bills, credit memoranda, etc., it is expensive, time-consuming and much more likely to result in error. The concentration upon a well-trained clerk of the responsibility for finishing up a clerical job and getting it right means better service to our customers, less expense to the firm, and higher development in efficiency of the man himself.

8. Clerks whose work brings them most frequently in contact should be located close together.

9. By thus planning the work and equipping the men, incompetent employees can be more quickly eliminated, a definite schedule of incoming and outgoing demands can be adopted with some certainty of their fulfilment, the minimum of office force and office space required can be established, and a spirit of interest, co-operation and ambition for advancement will be developed.

MINING COMPANIES' AUDIT.

A brief and concise form for guidance in the audit of a no-liability mining company:—

1. The Auditor should carefully peruse the prospectus and the Rules and Regulations.

2. Examine the Agreement between the vendors and the Company.

3. Check the number of shares issued and amount of cash paid to the vendors and promoters.

4. Examine the lease or other title to the property acquired by the Company from the vendors, and see that the transfer to the Company is in order; also examine any further leases, etc., that may have been applied for by the Company.

5. Ascertain that all lease rents and other fees in connection with the lease, etc., have been paid.

6. Check the preliminary expenses, commissions and brokerage, and see that the Company has paid only those sums it has contracted to pay.

7. Examine the Minute Book for the allotment of shares, and see that all application and allotment fees have been paid in respect of the shares issued.

8. Check the call receipt books, and see that all calls received have been entered in the Cash Book and banked within a reasonable time, and that the receipt books are all accounted for and numbered consecutively.

9. Examine Mint Returns, Account Sales from treatment works, etc., and compare with entries in the Cash Book and mine manager's certificate, showing the yields and output from the mine during the period of the audit.

10. Examine vouchers for all payments, and ascertain if the accounts have been passed for payment by the Board of Directors.

11. Check additions of the wages sheets, and see that there is a signature for each man's wages.

12. See that the amount paid to Directors for fees is in accordance with the amount authorized by the shareholders, and that travelling expenses or other allowances to the Directors have been specially sanctioned by the Rules and Regulations of the shareholders at a General Meeting.

13. Verify all Journal entries.

14. Check all transfers and issue of scrip and the entries in the Share Register.

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DOMINION BANKRUPTCY ACT

THE Bankruptcy Bill, drafted by Mr. H. P. Gundy, and introduced to the Federal House by Mr. Jacobs last session, but which was held over on account of shortness of time for consideration, has been reintroduced by Hon. Hugh Guthrie, the Solicitor-General, as a Government measure, and there is every prospect of it becoming law this session.

A conference of interests affected was held a short time ago, when the various features of the Bill were fully discussed and agreed to, and there is not likely to be opposition to its adoption.

THE ONTARIO BULK SALES ACT

THE Bulk Sales Act now in force in Ontario makes it the duty of every person who buys any stock in bulk, before closing the purchase and paying any part of the price in excess of $50, or before giving any note or security for the price, to demand and receive from the vendor a written statement, verified by a statutory declaration, containing the names and addresses of all the creditors of the vendor and the amounts payable to each of the creditors. If there be a failure to obtain the statement the sale is deemed to be fraudulent and is void as against the creditors, unless all the creditors are paid in full out of the proceeds of the sale.

Full text of the Act will be found in the October, 1917, issue of this magazine.

MUST LIVE ON INCOME

IN his very interesting speech at the meeting of the National Provincial and Union Bank of England recently, Lord Inchcape said: "If the British Government is to meet its obligations as it has done in the past, if the country's credit is to be maintained, we must live within our income and not on our capital. It is the same with a Government as with an individual, a private firm or a company. The wealth of a country can only be built up by spending less than its income. The Government has no income outside that of the people. This, I am afraid, in many quarters is scarcely realized."

WHITLEY PLAN IN TORONTO

AS the result of a conference between representatives of employers and employees of the federated building trades of Toronto, held a short time ago, preliminary steps were taken for the formation of an Industrial Council for Toronto. The object in view is to create an organization somewhat on the lines of the Whitley plan in England, on which employers and employees will be represented in equal numbers, with a disinterested person, probably a Government official, as chairman, to deal with all matters appertaining to the building trade in an amicable manner so as to prevent strikes or other industrial disturbances.

CAN LOSSES BE SHARED?

It has been amply demonstrated that Capital is not only willing but is sharing with Labor its profits in manufacturing and trade, in some cases on a 50-50 basis. Is Labor willing to share in the losses of Capital? Through over-production, over-competition or some other unavoidable cause the time may come when Capital will not make a profit, but a loss may occur. Will Labor meet Capital in bearing this loss, either by returning to Capital a share of the profits received in profit years, or accepting a reduction in current pay that would produce Labor's share in the loss? Any and every Profit Sharing Scheme should provide for such eventuality.

SPECIAL

Patronize our advertisers, for your own interest, for the magazine's interest, there are none better in their lines.

LABOR

QUITE a few people think the word "labor" rightly applies only to the work of the hands. Some would divide us all into two classes, producers and non-producers, and reject all the latter class as parasites. The idea that there is no labor except that of the hands and the muscles is as narrow as it is untrue. In a recent article on the subject of labor in the London "Times" the editor quotes "Hobbes'" definition as follows:—

"Labor, in the wide sense, is the price paid for wealth by man, and, therefore, the ultimate measure of its value. Locke elaborated this thesis at considerable length, and Adam Smith carried it farther. 'The real price of everything,' he says, 'is the toil and trouble of acquiring it,' and that general term 'toil and trouble' includes every sort of labor. Moreover, he specifically recognizes the part of invention in the division of labor, and speaks of inspection and direction as 'a particular sort of labor.'"

Society is an organism very complex, with many places to be filled. The world cannot dispense with the leaders any more in industry than in politics and religion. "There is the sweat of the brain as well as the brow."

THE NECESSITY OF AUTOMOBILE INSURANCE

AUTOMOBILE Insurance should concern all who own automobiles in these days of crowded streets, frequent accidents, numerous fires and even more numerous thefts. Automobile Insurance is sold in four different forms providing protection against loss from four different contingencies. Some argue that all these forms of insurance are not necessary, while others are just as firmly convinced that complete protection against all eventualities is not only desirable but necessary. All are agreed, we think, that Public Liability Insurance is the most necessary protection for the automobile owner. Public liability insurance as issued by the insurance companies to-day protects against all loss and expenses if the car owner or his chauffeur or even any member of his family is unfortunate enough to injure any person while driving the assured's car.

Insurance against loss from fire or theft is perhaps the second in rank of importance and we certainly cannot close our eyes to the fact that automobile thefts are becoming alarmingly frequent. The authorities do not seem to be able to cope with the situation, and the automobile owner has no alternative but to protect himself by insurance. Insurance against loss by reason of damage to the property of others and protection against damage to the assured's automobile by collision, are also considered by many very necessary forms of protection to carry.

AMERICAN CITIZENS OBTAIN RELIEF

THE campaign of American residents in Canada carried on during the past six months to obtain relief from the burden of having to pay income taxes to both the Canadian and American Governments has at last borne fruit. The revenue bill, which has passed both Houses of Congress, contains a clause providing that American citizens living abroad shall be relieved of the necessity of paying income tax to the United States to the extent that they pay similar taxes in the country of their residence on revenues derived within that country.

The tax must, however, be paid to the United States on revenues derived from the United States, but the offer of a reciprocal arrangement to all nations remitting this tax is also included in the revenue bill. That is, for the citizens or subjects of each nation which refrains from collecting taxes from its nationals resident in the United States on revenues derived from the country of their origin, the United States will also refrain from taxing its own citizens resident in such countries.

As Canada has never collected any tax whatever from Canadians living abroad, it is felt by Americans here that the new reciprocal arrangement should apply in their case, but this will have to be cleared up by negotiations between Ottawa and Washington.

JOINT BANK ACCOUNT

BANKERS and persons with joint bank accounts will be interested in a Windsor case in which Chief Justice Mulock has just given judgment at Osgoode Hall, Toronto. Mrs. Louisa J. Bement opened an account in the Canadian Bank of Commerce in October, 1902, in the names of herself and Henry Boyd Huston. Before she died in July, 1917, she had deposited $4,000 in this account. Huston swears that Mrs. Bement told him she had money on deposit for him in the bank, but the manager of the branch says that Mrs. Bement told him she did not want Huston to know the account was in their joint names.

Upon Mrs. Bement's death her administrator entered action for a declaration that the money belonged to the estate and not to Mr. Huston. Judgment upholding this contention is given by Sir William Mulock, who points out that under a regulation of the bank the money was not withdrawable without the bank book. Huston had never had the bank book in his possession, and so the money was never within his control. It could not be treated as a gift inter vivos.

BUSINESS PROFITS AND INCOME ACTS

It is believed that it is not the intention of the Government to re-enact the Business Profits Tax, which Act expired on the 31st of December last. At this writing, there is no signal out, but there is a growing belief that in order to raise more revenue, the Income Tax rates may be revised upwards.

CHARTERED ACCOUNTANT

Man between 25 and 35 wanted by Western firm. Energetic and experienced, capable of taking charge of office. Can secure interest in business in a short time if suitable. Information given treated confidentially. Reply in first instance, giving full particulars, to Box M, "Canadian Chartered Accountant."

PERSONAL

Mr. Charles D. Corbould, Chartered Accountant, Winnipeg, announces the removal of his office from the Sterling Bank Building to 649 Somerset Block.

OBITUARY

It is with deep regret that we have to chronicle the death of John Wesley Johnson, F.C.A., M.P.P., a charter member, of the Ontario Institute, which occurred at Belleville, his home, on March 11th last. Three years ago Mr. Johnson had the misfortune to fall and break his leg, and the injury had much to do with his death. He had lived in Belleville for over forty years, taking an active part in the town's business, social and civic interests, and his passing will leave a void not easily filled.

REVIEWS

Office Machinery and Appliances—2nd Edition.—By Lawrence R. Dicksie, F.C.A., (Professor of Accounting and Business Organization in the University of London). Published by Gee & Co., Limited, 34 Moorgate Street, London, E.C. 2. Price, 11s. net. Finely printed upon special paper and copiously illustrated. This edition has been carefully revised and contains two new and important chapters upon the subject of office equipment. Every accountant and accountant student should have a copy.

THE ASSOCIATION OF ACCOUNTANTS IN MONTREAL

(Incorporated 1880.)

F. W. Sharp, President. Robert Wilson, Jr., Secretary

The Quebec Accountancy Bill, the object of which was to create a body that would be the governing body of the profession in this Province was introduced in the Legislature but did not receive sufficient support to be enacted into law. The situation here, therefore, remains as it was.

Routine meetings of the Council have been held during the past quarter but no business of importance has been considered. Our members have been exceptionally busy this winter, due largely to the Tax Acts and the scarcity of competent assistants.

The Accountants Students Society of Montreal after a period of comparative inactivity due to the large number of older members being overseas, organized a Membership Campaign which has resulted in sufficient applications to date being received as to place the Society in a very strong position. A series of lectures and meetings have been arranged for the future.

Officers elected at the annual meeting for 1919, were as follows: President, P. Probyn, C.A.; 1st vice-president, H. S. T. Piper, C.A.; 2nd vice-president, R. C. Stevenson, C.A.; secretary-treasurer, L. Heald; assistant secretary-treasurer, A. MacIntyre.

The meetings already held have been very successfully attended, and lectures have been given by P. Probyn, Esq., C.A., on Study of Law Subjects; H. S. T. Piper, Esq., C.A., on Municipal Accounting, and Lewis Brimacombe, Esq., C.A., on Points on Capital, Single Traders and Company Accounts, which proved very instructive and were much appreciated by the members of the society. The students are looking forward with enthusiastic anticipation to the lectures arranged for the future which are to be given by other members of the parent association.

The needs of the Society's Library in placing at the disposal of its members the best published authorities on the subjects relating to the Accounting Profession have been effectively provided for, and the collection is considered to be the best owned by any students society in Canada and is being continually supplemented. Members may obtain the loan of any book by application to the librarian, Mr. F. R. Walker, Messrs. Fisk, Skelton & Co., C.A., 703 Eastern Townships Building, Montreal.

Applications for membership to the society will be received by the secretary-treasurer, Mr. L. Heald, Messrs. Macintosh, Cole & Robertson, C.A., 157 St. James St., Montreal. From whom all information pertaining to fees, etc., may be obtained.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

(Incorporated 1883.)

W. R. Morris, President. Arnold Morphy, Secretary.
W. J. Valleau, Registrar.

Once again we are called upon to record the death and honor the memory of another of the Past-Presidents of the Institute, Mr. J. W. Johnson, F.C.A., of Belleville, who passed away on March 11th after an illness extending over three years. Mr. Johnson was one of the charter members of the Institute, and was always prominently identified with every move for the advancement and well-being of the profession.

He was born in County Antrim, Ireland, January 17th, 1846, and came to Canada in 1864. He gained his experience in business while acting as purser and agent for steamships on the St. Lawrence and the Great Lakes. For forty-two years he had been Principal of the Ontario Business College, which draws its students from all parts of America. In connection with the college, he published various works on commercial education. For six years he served as Alderman in Belleville City Council, and for four years as Mayor, 1897-1900. He was a Past-President of the Board of Trade. He was twice a delegate to the Imperial Chamber of Commerce at London, England.

He was first elected to the Legislature for West Hastings in 1908, and again in 1911 and 1914. Although a staunch Conservative, he never failed to serve the interests of all classes of his riding. He was a man of strong convictions, and was outspoken in debate. He was first to champion woman suffrage in the Legislature, and in his public utterance on Armistice Day proposed that November 11th be a day of national thanksgiving.

Mr. Malcolm H. Robinson, Second Vice-President of the Institute, has been called to London, England, on business. He expects to be back about the first of June.

Mr. Sholts C. Scott, was elected City Auditor at a late meeting of the Toronto City Council.

Mr. Robert E. Stephens, a member of the Saskatchewan Institute and manager for Macintosh, Cole & Robertson, Chartered Accountants, Port Arthur, Ont., was admitted to membership on January 27th last.

Mr. Jas. C. Gray is on his way to the Old Country for a short business trip. He hopes to return by middle of May.

Mr. Rutherford Williamson, a member of the Council, owing to overwork, has been ordered away for a month's rest. We hope he will have a pleasant vacation and return fully restored in health.

The Annual Examinations will be held on the 14th, 15th and 16th of May. Full particulars of arrangements and programme of events will be sent all candidates in good time.

The Library Board desire the members to know that "Hansard," the House of Commons debates, and the "Ontario Gazette" are on the library table for the information of those interested.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NOVA SCOTIA

(Incorporated 1900.)

G. Wallace Dickson, President. H. D. Creighton, Secretary.

The nineteenth annual meeting of the Institute, held on the evening of February 4th, was well attended.

The Treasurer's report, duly audited, was presented. In addition to a cash balance on hand, it showed the sum of $1,450 invested in Canada War Loan bonds.

The subject of a revision of the by-laws was brought before the meeting. A committee was appointed to deal with the matter, and to report at a special meeting of the Institute, to be held at the call of the President.

The President made a fitting report, reviewing the year's work of the Council, referring particularly to the tariff of fees as considered a step forward.

G. Wallace Dickson, who had filled the office of Secretary-Treasurer for three years, was elected President; T. Harold Johnson, Vice-President, and H. D. Creighton, Secretary-Treasurer. The Council is composed of E. H. Abbott, G. H. Holder, E. Kaulbach, W. E. Leverman, R L. Martin, Col. F. H. Oxley and T. L. E. Piers. Auditor, J. R. Blackett.

Mr. Blackett was appointed member of the D.A.C.A. Council, representing the Nova Scotia Institute for the ensuing year.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BRITISH COLUMBIA

(Incorporated 1905.)

G. E. Winter, President. H. D. Christie, Secretary.

At a recent meeting of the Council, approval has been given to reciprocal relations being entered into with the Australasian Corporation of Public Accountants and correspondence to this end is now being conducted with the Council of that Society.

The following names have been removed from the list of members of this institute:—P. L. MacNeill; A. F. Jones, resigned; A. L. Berdoe, resigned; J. S. Napier, resigned.

The Council after considering a report of the finance committee, approved their recommendation that, in view of the present estimated ordinary expenses of the institute equalling the estimated revenue, that the annual fees for all members be increased from $10 to $15.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ALBERTA.

(Incorporated 1910.)

Cecil E. Race, President. W. W. Gould, Secretary.

A deferred Council meeting was held in Calgary on March 8th.

The Council decided to ask the Examining Board of the University of Alberta to grant supplemental examinations under certain conditions. It is understood that the request will be considered and reported upon at a later date.

A proposed tariff of fees has been prepared and will be submitted to the membership by mail in accordance with direction from the last annual meeting.

Mr. G. P. Blythe, one of the charter members and first president of the Institute, was re-admitted to membership, he having resigned in 1913, as he had discontinued practice. He is now general auditor of the Cuba Cane Sugar, Corporation, Habana, Cuba.

Mr. H. G. Norman is now in the employ of Messrs. Barrow, Wade, Guthrie and Company, with headquarters at New York.

Mr. E. A. Irwin is with Messrs. Price, Waterhouse & Co., San Francisco.

The examinations of the Institute will be held on May 20, 21 and 22. Applications will be received by the secretary until April 19th.

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Dominion Association of Chartered Accountants

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